

The American Ceramic Society



APPENDIX 6: ENDOWMENT POLICIES

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Endowment Policies

DEFINITION

An endowment is a special fund whereby the principal is held for investment and the interest earned on the principal is spent as directed by the donor.

TYPES OF ENDOWMENTS

Endowments are classified as permanent, quasi, or term endowments. Funds can be either *With Donor Restrictions* or *Without Donor Restrictions* within each of these classifications. *With Donor Restrictions* endowment funds are funds for which the donor specifies how the endowed income will be used. *Without Donor Restrictions* endowment funds are funds for which the annual earnings are used at the discretion of The American Ceramic Society (ACerS) Board of Directors.

- a. **Permanent (True) Endowments:** Donor specifies principal is to be invested and maintained in perpetuity; only the income distributions may be expended.
- b. **Quasi Endowments:** Quasi endowment funds are funds functioning as an endowment that are established by ACerS from either donor or institutional funds, and will be retained and invested rather than expended. The quasi endowment must retain the purpose and intent as specified by the donor or source of the original funds, and earnings may be expended only for those purposes. Since quasi endowments are established by ACerS rather than by an external source, the principal may be expended as stipulated by the donor.
- c. **Term Endowments:** Similar to permanent endowment funds except after the expiration of a stated period of time or occurrence of a specified event, all or part of the principal may be expended depending on donor wishes.

GOVERNING AUTHORITIES

Three major authorities determine ACerS' rights and responsibilities in administering its endowment: legal, donor, and directors.

- a. The primary legal authority is the Uniform Prudent Management of Institutional Funds Act, adopted and enacted with some modification by the Ohio legislature in June 2009. This statute establishes the parameters, subject to any donor limitations, in which ACerS can maintain, invest, and spend its endowment and other institutional funds. Other legal regulations, doctrines, and considerations affect the procedures and policies of ACerS in its endowment administration.
- b. Donors can restrict the terms of an endowment by means of a "gift agreement," a document signed by the donor that states the donor's intent. The donor can intend a true, term, or quasi endowment, and may either restrict the distribution of that endowment to a specific purpose or allow the board to direct the distribution for purposes determined at ACerS' discretion.
- c. The third authority is the Board of Directors of ACerS. The directors have ultimate authority over the acceptance and maintenance of gifts and endowments. Control over the investment or reinvestment of Fund assets shall be exercised exclusively by The American Ceramic Society's Board of Directors, according to the Society's Investment Guidelines.

GENERAL ENDOWMENT POLICIES

It is ACerS policy to enhance its endowment by promoting practices that permit the most flexibility in long-term planning, utilization, and investment. Therefore, ACerS seeks endowment gifts that least restrict the purpose, administration, and the investment of principal. To further these goals, ACerS has developed the following policies that apply to endowments established within the Society.

Designation

It is expected that a donor designation to endowment is final. Once a gift is designated to an endowment fund, the donor's gift designation may not be changed.

Gift additions

A gift addition to an existing endowment fund takes on the terms of the fund. Donors wishing to make a gift addition must be made aware of this policy. Additions are not currently subject to a minimum amount.

Underwater Endowment Funds

An underwater endowment fund is a donor-restricted fund whose current fair market value has fallen below the level that the donor or the Uniform Prudent Management of Institutional Funds Act (UPMIFA) requires to retain as a fund of perpetual duration. The American Ceramic Society permits spending from underwater endowment funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations.

Endowment purpose

ACerS encourages unrestricted endowment gifts because they provide the Society with the most flexibility in its financial planning. However, donors may restrict the use of income for a specific purpose, given that the purpose is acceptable to the Society. Some purposes are not appropriate for endowment, such as those that do not involve long-term investment. If a donor has an expectation that their gift will be invested for a near term (i.e., less than ten years) with a set expectation for liquidation, the gift would not be considered appropriate for endowment.

Documentation policies

To establish an endowment fund, ACerS requires a "gift agreement" with certain elements approved and signed by the donor. The document must clearly identify which individuals have the authority to define the endowed fund terms and all restricted endowments must have an alternative use clause. This documentation serves as evidence of donor intent, and helps to ensure the terms of the gift are clearly documented and followed.

Endowment Funding Level

ACerS requires a minimum gift amount of \$100,000 to establish an endowment. The objective of this threshold is to ensure that endowments sufficiently provide annual spending amounts which cover the estimated costs of the program/purpose they support, both at the time they are established, and in the future.

ACerS requires that the minimum endowment gift amount be achieved within five years from the date of the gift agreement being completed and with donor additions only (primarily gifts). Accumulated earnings, retained as part of a fund's market value, are not counted towards reaching these levels because they are already counted on to help preserve the long-term purchasing power of the endowment, and are available for spending in current and future periods as needed. Accumulated earnings can also fluctuate over time with changes in the market; while gift principal generally remains intact in perpetuity, and therefore can be relied on to provide a stable source of income.

Fund additions designated by ACerS, such as Board of Director matches or income returned to principal, also do not count towards meeting endowment thresholds. ACerS' policy requiring that endowment levels be achieved with donor additions helps to ensure that ACerS treats all donors in a fair and equitable manner in recognizing their generosity, and also helps to ensure that funds remain at a level sufficient to support their designated purpose.

Endowment Spending

In order to preserve the real value of ACerS' endowed assets, a spending amount will be selected that strikes a reasonable balance between current outlays and reinvestment of the remainder to support future spending.

ACerS board will give consideration to general economic conditions, the rate of inflation of the Consumer Price Index, and total investment returns when setting spending amounts.