

Endowment Accounting and Stewardship Policies  
Approved by Board of Trustees 12/12/2013

Endowed funds are charitable gifts established in perpetuity in which the principal is invested and a small portion of the fund's balance (typically 4-6%) is paid out annually. Chatham Education Foundation may have several endowed funds, established by one or more donors and for one or more purposes.

The Uniform Management of Institutional Funds Act (UMIFA) and NJ Law PL2009 chapter 64 govern endowment spending by charitable institutions. Terms in a gift instrument designating a gift as an endowment, or a direction or authorization in the gift instrument to use only "income," "interest," "dividends," or "rents, issues, or profits," "to preserve the principal intact," or words of similar import create an endowment fund of permanent duration unless other language in the gift instrument limits the duration or purpose of the fund. If the donor consents, Chatham Education Foundation may release or modify a restriction contained in a gift instrument on the management, investment, or purpose of an institutional fund.

The Financial Accounting Standards Board (FASB) has identified three types of endowment:

- 1) True Endowment. The UMIFA definition of endowment describes true endowment, whereby the donor has stated that the gift is to be held permanently as an endowment, either for general purposes or for specific programs. The portion of the endowment that must be maintained permanently is classified as a permanently restricted net asset.
- 2) Quasi-endowment (also known as Funds Functioning as Endowment - FFE). Reserve funds or unrestricted gifts that the board elects to put into endowment are quasi-endowments. Because a future board could vote to remove part or all of the quasi-endowment's principal, it is not a true endowment. A board-designated endowment is classified as unrestricted net assets, and its principal may be spent under FASB guidelines.
- 3) Term endowment. An endowment created for a set period or until a future event is known as a term endowment. After the term runs out or the event takes place, the principal may be expended. The portion of the term endowment that must be maintained for the specific term is classified by FASB as temporarily restricted net assets.

The endowed funds in Chatham Education Foundation's endowment must be clearly labeled as one of these three types for accounting purposes.

Chatham Education Foundation shall issue a public annual report stewarding the aggregate of all endowed funds, including investment performance over time, asset allocation for the current fiscal year, total endowment market value over time, endowment spending over time.

Chatham Education Foundation shall issue a private annual report to each donor who has contributed to a named endowment fund, showing for the current and prior fiscal year each donor's endowment account:

- beginning endowment gift value
- endowed gifts during the fiscal year
- ending endowment gift value
- beginning market value of endowment
- endowed gifts during the fiscal year
- net investment income, gains/(losses)
- spending policy distribution
- reinvested cash
- other activity
- ending market value of endowment