

# ENDOWMENT

## Definitions

**Endowment:** A fund established with a gift or gifts from one or more donors to Clemson University or the Clemson University Foundation (CUF) to be invested in order to generate financial support for a purpose or purposes mutually agreed to by Clemson and the donor(s). The actual gifts from the donor(s) form the “corpus” and are not intended to be spent; rather, only a portion of the “total return” is spent, based on the “spending policy.” An endowment’s total return includes both earnings and market appreciation.

**Fund Agreement:** The written and signed document stating the mutually agreed-upon purpose or purposes for which a specific endowment’s budget can be spent. The budget cannot be spent for purposes not included in either the fund agreement or donor-approved amendments to the fund agreement.

**Corpus or Principal:** The gift(s) made to establish or increase an endowment, as well as any other additions made to the endowment. The corpus of a permanent endowment is held in perpetuity. The principal is invested according to investment policy, and only a portion of the total return may be expended to carry out the donor’s purpose.

**Spending Policy:** The rules governing how much of an endowment’s total return will be made available for spending in a given fiscal year. For example, the spending policy might say the annual spending allocation will be equal to four percent (4%) of the endowment’s average market value over the most recent three-year period. The four percent (4%) is known as the “payout rate.” The payout rate is decided on an annual basis by the CUF Board of Directors for the Clemson University Foundation and Clemson University endowments. Other rules may be applicable within the policy. Currently, a minimum amount of earnings and appreciation is required before an endowment is eligible to pay out.

Additionally, an endowment is assessed an administrative management fee that is utilized in securing, raising, investing and administering endowment funds in accordance with policies and procedures of the Clemson University Foundation in effect at the time. The annual fee (currently 1.25%) is assessed on a quarterly basis to the beginning market value of the endowment.

State law governs the management of institutional funds. UPMIFA rules govern investment of the funds of charitable organizations and total return expenditure of those funds.

## Types of Endowment Funds

**Permanently Restricted Endowment:** An endowment created by a donor to exist forever.

**Term or Temporarily Restricted Endowment:** An endowment created by a donor to exist for a specific period of time or until the occurrence of a specified event. For example, the donor may authorize the fund administrator to allow a portion of the corpus or principal to be used to launch a new program or to improve a program.

**Quasi or Unrestricted Endowment:** A fund established by the board to function as an endowment. The board has authority to determine the use and may terminate the fund at any time.

## Parts of an Endowment

As mandated by accounting standards, each endowment fund is divided into three components:

- **Corpus/Principal:** All gifts to the endowment and any other additions made to the endowment on a permanent basis.
- **Appreciation:** The endowment’s total return (earnings plus gain or loss in market value).
- **Spending Project:** The amount of money available to be spent for the endowment’s agreed-upon purpose(s). Each year, a payout is calculated based on the approved payout rate. The payout amount is transferred from Appreciation to Spending. If the payout is not fully spent, the remainder is available in subsequent years. Funds in Spending do not earn interest for the endowment.

# FAQS

## **How soon can the program area receive annual income from the endowment?**

First, the endowment must meet any minimum requirements set forth in its fund agreement or by financial policy. If there are no minimum requirements, a payout will be generated for the second fiscal year after the endowment was created. Currently, CUF policy requires investment returns that place fund market values at a minimum percentage above corpus value to allow a payout. If there are minimum requirements, a payout will be generated for the second fiscal year after the requirements are met. In other words, an endowment created and/or meeting all of its minimum requirements in fiscal year one would have a payout for fiscal year three.

## **When will my endowment generate a full budget?**

Market factors greatly influence when an endowment will generate a full budget. Generally, an endowment's payout is calculated seven months in advance of spending, based on the three-year average fund balance of the endowment. The three years that are used for the calculation are the three fiscal years prior to the time of the calculation. Therefore, assuming investment appreciation parameters are met, a full payout will be generated in the fifth year after an endowment is fully funded. For this reason, many donors provide annual gifts to supplement the purpose of their endowment for this interim period.

## **What can I expect Clemson to do for me?**

Two fundamental responsibilities accompany being the beneficiary of an endowment: (1) the responsibility to use the funds for the purpose(s) for which each endowment was established; and (2) commitment to appropriate stewardship, which entails communications with donors regarding how donations are making an impact on students and faculty. These responsibilities apply particularly to the specific department/unit and individuals benefiting from an endowment, since donors expect to hear from those who are most directly benefiting from the funding being provided.

On an annual basis after the close of the fiscal year, the Clemson University Foundation's Office of Donor Services prepares and mails endowment statements to the endowment's designated contact.

Donor stewardship is of the highest priority to Clemson University and the Clemson University Foundation. We welcome your questions and strive to provide you, the donor, with relevant and current information regarding the impact of your endowment.



Clemson Forever is dedicated to strengthening the University by building a solid financial base of private giving, providing exemplary stewardship of those gifts and clearly communicating to donors the impact of their gift and the gratitude of the Clemson Family. To this end, the Will to Lead for Clemson is a \$1 billion capital campaign to support students, faculty, engagement and facilities.

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