ENDOWMENTS

An endowment is a donation of money or property to a nonprofit organization, which uses the resulting investment income for a specific purpose.

You can think of an endowment like a never-ending IRA for a nonprofit organization – it can create an income stream for the life of the organization. Growth of the endowment will depend on successful investment management and additional donations to the fund. At some point, your endowment may be large enough to cover your annual budget. Imagine not having to fundraise!

Your Strategic Plan, Board Resolution and Gift Acceptance Policies all may outline the establishment of an endowment fund and its purpose. You will want to determine your minimum to establish an endowment. It is suggested that a nonprofit have at least twice their annual operating budget as a minimum. Some nonprofits will seed an endowment with excess cash from its operations or fundraising. This is a good starting point, but to really make a difference, it is crucial that you involve your community of supporters. In most cases, an endowment is funded by a significant bequest or major gift of cash or appreciated assets. Funding can also come from other types of planned gifts such as income interest from a Charitable Lead Trust or the remainder interest of a Charitable Remainder Trust.

In the United States, the Financial Accounting Standards Board (FASB) has identified three types of endowments:

- True endowment (also called Permanent Endowment). In a true endowment, the donor states that gifts are to be held permanently as an endowment, either for general purposes or for specific programs as identified in a written agreement. The nonprofit organization can spend the interest accrued through investing the corpus.
- Quasi-endowment (also known as Funds Functioning as Endowment - FFE). Reserve funds, financial windfalls, or unrestricted gifts that the Board elects to put into endowment are quasi-endowments. The principal may be spent.
- Term endowment. An endowment created for a set period of years or until a future event (such as the death of the donor) is known as a term endowment. After the term runs out or the event takes place, the principal may be expended.

In addition to board oversight, many organizations will create an endowment committee to assist with administration of the endowment. They will set the endowment investment policy, select the investment manager, and establish the spending policy. Usually, only a portion of the interest or earnings from an endowment (typically 4 or 5 percent) can be spent annually to make sure that the original fund (corpus) grows over time. Community foundations can be an excellent resource for smaller organizations to place their endowments. They will provide administrative support and investment oversight, allowing the organization to focus on its mission.

Endowment funds impress donors, especially long-term, generous donors. Donors love the option of giving a gift that keeps on giving well into the future, and the opportunity to support the needs of the moment, such as operating and program funding.

A great way to kick off an endowment is through a campaign. Create a case for support, set a goal, and broadcast your message widely: "We're starting an endowment! Help us create a sustainable future for our organization." Or, "Leave a Lasting Legacy – Leave 10!"

ENDOWMENT RESOURCES

- "The Importance of Endowments" by the Council on Nonprofits
- Nonprofit Essentials, Endowment Building by Diana Newman
- "Getting Serious About Building Endowment" by Kathryn Miree