LIFE & LEGACY
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The Simple Secrets (and Guide) to Drafting Endowment Policies

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THE SIMPLE SECRETS (AND GUIDE) TO DRAFTING ENDOWMENT POLICIES

Conversations with donors about endowment can be tough - but they are almost impossible if you have not worked through (and adopted) clear policies for building endowment. Learn the simple secrets to drafting endowment policies as you walk through the case and purpose, establish the vocabulary, create an Endowment Oversight Group, address fund purposes and structure, the endowment agreement, stewardship standards, and distribution/spending rules. The policy decisions allow your Board to make solid, well-reasoned decisions about endowment. A sample set of endowment policies, and a sample fund agreement are provided.

I. Are You Ready for Endowment?

Almost every organization wants an endowment, but not every organization is ready. If you attempt to develop policies before you have determined you are ready and understand the role and purpose of endowment, you will find the process difficult. Walk through these steps first.

A. The Perfect Profile for Success

Not every charity is ready for an endowment. It's difficult to make a case for long-term support of the organization if the charity is struggling to keep its doors open on a day-to-day basis. It must also be prepared to manage and account for the fund entrusted to it.
Indicators of success might include the following:

1. An organization that has been in existence for at least 8-10 years.
2. A history of strong program growth over the period of existence.
3. A solid fundraising program that has grown over the period of existence. Key elements should include a growing annual fund program, a solid base of repeat donors, major gifts and a readiness or entry into planned giving.
4. Stable nonprofit staff, again showing growth commensurate with its program and fundraising growth.
5. A financial officer or other staff member responsible for managing or providing oversight of the endowment.
6. Commitment by the board of directors and key staff to build endowment.

B. The Role of Endowment

Many organizations are confused about the role of endowment, perceiving it as a reserve to be spent down to balance budgets or meet unexpected needs. It is important to reach consensus as a board about the endowment's role before you begin.

1. The Endowment Is Not an Operating Reserve

An Operating Reserve is designed to ensure adequate resources to cover budget variances for a sudden increase in expenses, fluctuations in income, or unbudgeted critical expenses or investments in infrastructure. The Operating Reserve policies address how the Operating Reserve is funded, sets a goal for the size of the Reserve, and addresses how decisions on expenditures are made and approved. A sample Operating Reserve Policy is attached as Appendix A. Operating reserve assets are invested for the short-term because the organization may need to access them at any time.

2. The Role of the Endowment

The endowment, on the other hand, is a pool of permanent funds created through engaging donors in the organization's mission and vision. Endowed funds allow the organization to execute key strategies, sustain services through economic downturns that increase need and limit resources, and to act quickly when opportunities to meet critical needs arise. Making a gift to endowment is frequently likened to planting a seed that grows over time into a tree that produces fruit. The fruit - represented by the earnings and growth of the principal - can be gathered and distributed while allowing the tree to continue to grow and produce additional fruit.

C. The Most Common Obstacles to Endowment

There are two primary enemies of endowment: 1) Lack of time, making endowment a low priority; and 2) Pushback from staff and board.

1. Lack of Time

Endowment can be the stepchild of fundraising - the last priority. In that environment, annual fund will always be the greatest priority driven by concern that without annual operating funds, the future becomes irrelevant. Therefore, for endowment to be successful, the board and staff must buy in and make it a priority. Both annual fund and endowment are important. Make sure that endowment goals are part of the organization's annual goals. Ensure that the staff responsible for endowment have personal goals and metrics tied to endowment. Celebrate funds and commitments to endowment with the same fervor other fundraising successes are celebrated. This will remove the time/priority barrier.

2. Pushback from Staff

Another enemy of endowment is the quiet opposition from staff. There will always be members of staff who question whether endowment is appropriate. The best way to combat this is to integrate it into the key messages to the staff from the CEO. Keep the case and purpose of endowment in front of the staff, emphasizing its role in advancing the organization's mission.

3. Pushback from the Board

Charities are perpetual entities, and have long-term purposes. The boards of those organizations are responsible for ensuring the charity achieves its mission in the most effective manner and ensuring there are sufficient funds for operations. When a drop in current revenue results in a reduction of staff and services, it leaves dependent clients unserved. If this continues year over year, the board has compromised its fiduciary duty. One way to protect the organization against dips in income.

There is no purely objective test that leads an organization to decide to establish an endowment. The following questions may help a board remain focused on objective, rather than emotional, issues in making the decision. Positive answers to any of these questions may lead the organization to consider the creation of an endowment:

- *Does the organization serve a purpose or need that is likely to exist on a long-term basis?*
- *Do cyclical economic variances impact the receipt of annual or special event gifts?*
- *Does the organization face increasing operating costs?*
- *Does the organization currently have new programs related to its purpose that cannot be operated because they lack funding?*
- *Does the organization anticipate future needs for programs that may not be met for lack of funding?*
- *Does the organization face increasing competition for annual gifts?*
- *Is the organization dependent upon government or private grants for its organizational expenses? .*
- *Has the organization lost major annual gifts through attrition of its donors?*

Bring the discussion into the open at board meetings on a period basis, and make sure the issues and case for endowment is part of board training. The most common concerns on the part of board members are set out below (and many of these are shared by staff as well). Allow board members to raise these issues, and then help them answer them.

TABLE 1
THE SIX GREATEST BOARD CONCERNS ABOUT ENDOWMENT

Common Board Concern/Myth	*The Answers!*
1. How can we justify planning for/soliciting gifts for tomorrow when there are so many unmet needs today? Shouldn't we allocate every dollar we can raise to address today's problems?	Boards have a fiduciary duty to ensure continuity of services. An endowment allows the board to continue services through fluctuations in the economy, to expand programs strategically and with certainty the funding will be there to continue those programs, and to have resources when there are emergencies or disasters.
2. An endowment may make the organization appear rich? How do we get donors to continue giving annually if we have an endowment?	The endowment must have structure and purpose, including long-term goals. Once these are established, donors will understand the purpose and context of their gift, and the role of endowment.
3. How do we get donors to give us unrestricted dollars? We really don't want dollars directed to specific purposes because it will be too restrictive.	Structure the endowment to allow donors to give to broad areas of mission without restricting dollars to specific programs or activities. Long-term this will give their Legacy gifts the greatest impact.
4. Won't donors quit giving to us annually, or in capital campaigns, if they make an endowment gift? How do we avoid this?	Donors will not quit giving annually unless you ask them to do so! Make it clear their annual gifts are critical in supporting current mission, and you do not want them to make an endowment gift it will compromise that annual gift. Keep annual, capital, and endowment giving separate – recognize them separately in your giving societies and annual report.
5. Endowment and legacy giving are complicated concepts. Why don't we just stick to the basics, such as outright cash gifts?	If donors are restricted to cash, their options are limited. By expanding gift asset options, and gift form options, you increase the likelihood the donor will be able to participate.
6. How do we justify the costs for staff, marketing, and support of the Legacy program? You've told us these Legacy gifts will not be realized for many years.	Investing in Legacy and endowment giving is an investment in the future of your organization, as critical a contribution as the dollars that operate your programs today. Because there is a lag time between program start up and the realization of significant cash flow, you cannot wait until you are in crisis to begin.

D. The Most Common Problems in Managing Endowment

While many of the endowment problems I see are related to large charities - those with the largest endowments - smaller charities struggle with the same issues, just not on the same scale. These are the most often-cited problems:

1) **Administrative costs that represent too large a percent of the revenue produced by endowment.** Managing an endowment takes time, money, people, and systems to account for the funds (especially segregated funds for specific purposes), allocate revenue to the purpose and document it, investment the monies, allocate gains/losses/fees/additions/distributions to each of the segregated funds in appropriate ratios, report to donors, provide information in audits, report the fund balances appropriately on the financial statement, and in some cases, produce reports on individual funds.

2) **Proliferating and scattered funds.** Many charities allow donors to restrict income, and provide segregated funds at levels as low as $5,000. This leads to a spiraling number of funds, dramatically increases the costs of management, opens the door for missteps in use of funds, and invariably limits the effectiveness with which the charity can report to donors.

3) **Managing the paperwork.** Harvard, at my last count, had 11,600 endowment funds. That's a lot of paperwork. Some charities don't think about how the documents will be housed, how they can be accessed (although with scanning, the answer is easy), and who is responsible for holding them, producing them when needed, and overseeing their safety.

4) **Allocating restricted funds to designated purposes (and proving it!)**. Allocating the funds, and documenting that allocating in a way that makes it easy to audit, and easy to produce in the event of a challenge to the use of funds, is harder than it looks, especially when there are so many funds. A $5,000 fund will distribute $200/year with a 4% distribution rate. It will cost more than $200 to separately track the fund, allocate the revenue, document that allocation, and report to the donor. It is easy to drift off course if someone is paying close attention.

5) **Funds that outlive their purpose.** For charities, it is difficult when endowments require that the charity offer and operate programs that are no longer used to achieve mission, or the needs have changed in a way that the fund no longer has value for the charity. The earlier cautionary tales involving Princeton, the Barnes Foundation and Tulane make this point.

6) **Negative investment returns.** Many planning sessions for charities assume endowment values will go up. As we have learned in the last decade (see Table 3) this is not always the case. In fact, the DJIA, in August 2010, is lower than its value at the end of 2000, a decade earlier. Under Uniform Management of Institutional Funds Act (UMIFA), spending was limited when endowments were underwater (under the historic dollar value limitation). In the last 4 years, most (but not all) states have moved to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) which removed the historic dollar value rule and instead allowed nonprofits to exercise discretion (and prudence) in making distribution decisions. Neither help if negative returns continually shrink the non-inflation-adjusted value of the endowment funds.

7) **Litigious donors.** Finally, litigious donors create problems for charities. The lawsuits discussed earlier add one perspective, but a parade of unhappy endowment donors can be just as debilitating.

The charity's goals should be to anticipate these common problems, and create an endowment creation, administration, and spending structure that heads off bad results.

E. The Form of the Endowment

Once the nonprofit decides that it needs an endowment, it must determine the form of that endowment. The alternatives vary in the degree of protection afforded to the assets, access available to the board, complexity of the endowment form, and costs of administration. There are basically three choices:

a. Segregated account within the charity governed by clear policies and procedures;
b. Stand alone foundation (likely a supporting organization rather than a private foundation); or
c. An endowment account with a local community foundation.

The pros and cons of these forms are set out in Table 2.

TABLE 2
PROS AND CONS OF VARIOUS ENDOWMENT FORMS

Type of Entity	*Pros*	*Cons*
Segregated account within the charity	- Low cost - do not have to create separate entity and file annual return - Flexible	- More vulnerable in times of need - easier for the board to use assets for operating - May be vulnerable if boards change - May be liable for organization liabilities
Stand alone foundation	- More protection from organizational liabilities - More protection from urgent organizational needs - May avoid restrictions on use of funds imposed by state - Allows you to use more volunteers in board slots	- High cost of creating and operating entity - Supporting organizations under scrutiny by Congress - may be changes in the law - Must operate separate entity - takes more time
Community Foundation account	- Community foundation invests assets, does fund accounting, manages acceptance of gifts, has depth in development area - If community foundation is visible and credible, may strengthen the credibility and case for endowment	- The assets must be turned over to the community foundation - the college will no longer own them - The college will no longer have any input (or will have limited input) on investment and spending decisions. - Unless you have language in the governing document, the assets can not be transferred back to the college.

II. The Policies

A. What the Policies Cover

Endowment Policies, to be effective, cover a broad range of topics. Before we begin to talk about the details, consider the content.

1. Purpose
2. Definitions
3. Endowment Oversight Group
4. Administrative Fees
5. Endowment Fund Structure
6. Standards for New Funds
7. Quasi-Endowment
8. Use of an Endowment agreement
9. Stewardship Standards
10. Investment Management of the Funds
11. Decisions About Distributions from Funds
12. Changes to Policies

B. The Purpose and Definitions

As we move through the sections of the policy, refer to the sample set of policies at Appendix B. The first section sets out the purpose of endowment, which should be patterned on the points set out in Section I-3-c above. Also include the definitions for the terms essential to endowment management (see the policies themselves for the definitions):

- True endowment
- Quasi endowment
- Separately accounted funds
- Pooled endowment funds
- Endowment naming opportunities
- Unit accounting
- Uniform Prudent Management of Institutional Funds Act

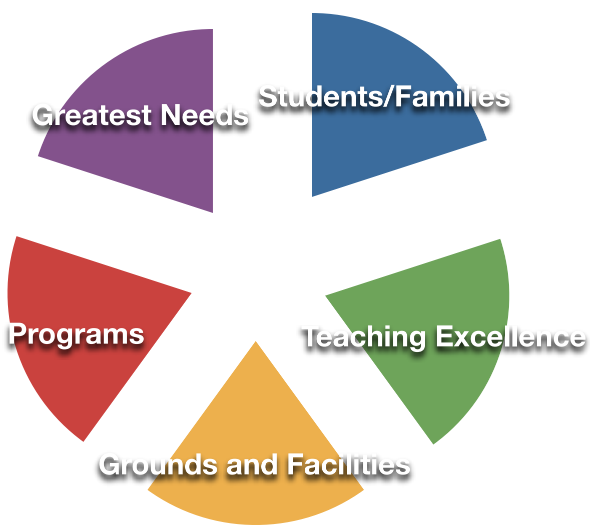
C. The Structure

One of the greatest challenges of endowment is helping prospective donors understand its purpose and impact. Organize the endowment so that they can see and understand the options for giving and the power of their gifts.

1. The Four of Five Sectors of Impact

In this example for a college preparatory school, you will see five sectors. The sectors you select should reflect the broad areas of impact of your foundation. These sectors should be broad enough that they will not change over time, unlike programs, which will always shift over time.

TABLE 3
REPRESENTATIVE ENDOWMENT STRUCTURE COLLEGE PREPARATORY SCHOOL



2. Brainstorm to Develop Goals for Each Sector

Once you have determined the appropriate sectors, group all current funds within the appropriate sector. Then, brainstorm about future needs for each sector, thinking generally about the types of resources the organization will need. Determine how much cash flow you will need for each of those ideas, and total them for the sector. Determine the principal you will need by multiply the cash flow by 25 (this will equate to a 4% revenue stream). Add the sectors together, and you have an endowment goal.

Once these categories are established, smaller accounts can be combined under the appropriate category. This is not as simply as it sounds, of course. Some funds may be restricted, and the charity may need to get the restrictions released. And families should be contacted to seek permission (or inform, as appropriate) for the change.

3. Allow Gift Options at All Levels

One of the biggest mistakes most charities make is to focus on large endowment gifts. This is often done in order to prevent having small funds with restrictions, which clearly creates problems. Open endowment to all donors by creating a pooled fund in each sector that can receive gifts from $1 to the minimum required for a segregated fund. This allows donors with small gifts to allocate their gift to the sector of greatest interest. The pooled funds allow the donor to select an area of interest without requiring the funds be segregated in a fund for that purpose.

4. Limit Restricted Purposes to Funds of $250,000 or More

Set the minimum for more narrowly restricted funds at a minimum of $250,000 (some charities use figures as high as $1 million). Donors below that level can allocate their gifts to one of the five sectors, but if the donor is to restrict the gift more narrowly than the sector, it must be large enough to justify the costs. Large funds will have the name selected by the donor, will produce annual reports for the fund, and will require the funds be allocated and verified.

5. Recognition Opportunities

Allow donors to name gifts at $50,000. For these gifts between $50,000 and $249,999[1], the donor's name will not be tied to a segregated fund, but to the sector to which the gift is directed. For example, if Kathryn and Ben Miree made a $50,000 contribution to the Teaching Excellence sector, the "Kathryn and Ben Miree Teaching Excellence Fund" would be attached to the sector in the annual report in perpetuity (or for a named period), in addition to other $50,000 - $249,999 gifts committed to that sector. A summary of these recommendations is set out in Table 4.

TABLE 4
GIVING LEVELS AND RECOGNITION STANDARDS FOR ENDOWMENT GIFTS

Level of Giving	*Designation of Use*	*Recognition*
$1 - $49,999	May designate gift to sector to be added to the pool.	Recognized in annual report as a gift to endowment in the year of gift.
$50,000 - $249,999	May designate gift to sector to be added to the pool.	Recognized in annual report as a gift to endowment in the year of gift; name selected by donor (generic to sector) recognized in perpetuity (or for a term) associated with the sector.

[1] If the limit for a segregated fund is $1 million, I would suggest setting the naming opportunity at $100,000 or $200,000.

Level of Giving	Designation of Use	Recognition
$250,000+	May designate the gift sector and a more narrow purpose within the sector; will receive annual statement about use and performance of funds.	Recognized in annual report as a gift to endowment in the year of gift; name selected by donor recognized in perpetuity with the named fund and its purpose.

D. Establishing New Funds

Much care should be devoted to the acceptance of new funds, especially their purpose, structure, and the expectations of the donor. Once you establish a fund, the donor can generally make changes to the purpose and operation of the fund under most state Uniform Prudent Management of Institutional Funds Act provisions, but after the donor's death, there are far fewer options to make changes. Therefore, you will need to live with the terms for perpetuity.

1. General Guidelines

The language for general guidelines is set out in the policies and included below:

- The endowment purpose must fit within and fulfill XYZ's mission and purpose;
- The endowment terms must fall within the policies set out in this section, or be approved by the Endowment Oversight Group as an exception;
- XYZ must be able to manage the endowment on a cost effective basis and to administer the fund in accordance with the terms of the endowment agreement;
- When possible, the endowment should be governed by a document that clearly defines the gift purpose and provides long-term, non-judicial flexibility in the event circumstances change over the term of the agreement, provided, however, such documents may not be possible where endowed gifts are created through a deferred gift about which XYZ had no knowledge.

2. Balancing Needs

In establishing new funds, it is always important to balance the needs of the organization with the needs of the donor. Donors have specific personal goals, and the organization's obligation to the donor is to be:

- As transparent as possible, explaining how the gift will be used, the timing of distributions from the fund, and how fund accounting is managed;
- As professional as possible, providing an endowment document to govern the gift;
- As position as possible, reflecting gratitude for the donor's gift; and
- As timely as responsive as possible.

3. The Approval Process

There are either two or three parties to the approval process, depending on what works best for your organization. First, the Endowment Oversight Committee should review and approve it, ensuring it fits within the standards, is understandable and clear in its directives, and is within the organization's ability and mission. Second, the donor (and in some cases, the donor's advisor) are approvers; the donor will need to sign the agreement. Third, the organization's CEO and/or Chief Development Officer are generally signatories. Since those individuals are often a part of the approval process, this is simply a way of formalizing the agreement.

4. Minimum Sizes for Funds

As recommended earlier in the section on structure, separately accounted funds - those with discrete balances where the organization reports out each year - should meet minimum size requirements. I recommend a minimum of $100,00 for endowed funds. Some organizations use a much higher number, and other's lower, but remember that separately accounted funds require accounting, allocation of earnings and losses, allocation of fees, and adjustments for distributions. With a $100,000 fund, the annual distribution (at 4%) is only $4,000. If the minimum size is dropped to $10,000, the annual distribution is only $400. At some size, the accounting/reporting/allocation requirements will exceed the distribution amount in terms of cost and staff time.

E. Using an Endowment Agreement

The Endowment Policies lay out the key terms that should be included in an endowment agreement and a sample agreement is attached at Appendix C. Please be sure to have your organization's legal counsel review and edit this endowment document to make sure it is appropriate for your state before you use it. It is offered as an outline of the terms that should be included. Those include:

- Name of donor(s)
- Name of fund or name of pooled fund
- Date of agreement
- Term of agreement
- Purpose of fund use (as broadly stated as possible to allow perpetual use of the funds), purposes for which funds may be dispersed, and discretion to approve distributions
- Manner and schedule for funding
- Ability to add funds to endowment (and requiring that those funds are administered in accordance with the document)
- Ability to pool investments (state law allows)
- Administration of funds
- Manner of amendment
- Philanthropy Protection Act of 1995
- Contingency language stating that when the specified purpose becomes illegal, impractical or can no longer be carried out or meet the needs of XYZ the Board of Directors may designate an alternate charitable use, and that the funds can be transferred to an endowment fund that reflects most closely the donor's gift goals, or to XYZ's general endowment.

F. Stewardship Standards

Stewardship is critically important for endowment donors, not only to express thanks, provide positive feedback on the impact of their funds, and encourage additional funds but also to avoid disagreements or misunderstandings that may lead to litigation. Generally stewardship involves:

- Annual reporting and communication for separately accounted funds that includes a report of the net assets and investment returns, the fund's market value (and/or market value of the entire endowment if the fund is not separately accounted), and a general report on the impact of the distributions from the endowment.

- Annual endowment report which is more designed for the public and prospects, but is also sent to fund donors. This includes the endowment's net assets, investment structure and results, highlights of the year's distributions and their impact, the funds names comprising the endowment, the case for the endowment, the year's donors to endowment, a report on spending and expenses, and other information as desired, which may include how to establish a new fund.

- Website information should include the annual endowment report and make it easy for donors to get in touch with staff.

- For donors with separately-accounted funds, and ongoing donors, the organization should send a separate, personal thank you note with appreciation for the impact the funds are having on the community.

G. Investment Management Policies

Investment management policies for the endowment are generally a separate document created by and administered by the Finance Committee or a separate Investment Committee if that exists. These are incorporated by reference into the Endowment Policies. These Investment Policies will generally include a spending policy for endowment, which has a critical impact on the asset allocation model.

H. Decisions About Distributions from Funds

If endowment funds are simply used to plug the budget each year, so that a set percentage is sent to the CFO to defray costs, the decision making becomes very simple - and also very uninspiring to donors. If the endowment is divided into four or five sectors, then decisions about the most critical needs should be made through a thoughtful process with those of knowledge of the needs of each sector. The more purposeful the distribution process, the more engaging it will be for donors. The policies set out a proposed process for each sector, and also from quasi-endowment which is not subject to the same legal restrictions as true endowment.

I. Changes to the Policies

The Endowment Policies should be assigned to a committee for review on an annual basis, and any changes should be reviewed by the board. This ongoing review process keeps the policies alive and vibrant in the boards' eyes and will ensure they remain relevant.

III. Final Thoughts

The process of drafting the endowment policies, if done well, will build consensus, enthusiasm, and vision for the endowment. Do not look at the task as just an administrative one. Use the task as an opportunity to engage the board as prospective donors and owners of the endowment. Use the draft documents as a model, but make them your own.

APPENDIX A
XYZ CHARITY
OPERATING RESERVE POLICIES

I. Purpose of Policies

XYZ Charity (hereinafter XYZ) has established an Operating Reserve to ensure adequate operating resources for its mission, programs, staff, and ongoing operations by providing an internal source of funds for a sudden increase in expenses, one-time unbudgeted expenses, unanticipated losses in funding, or uninsured losses, and similar unanticipated budget variances. The purpose of this policy to create a disciplined approach to building and using reserves so that funds will be available at critical points in XYZ's operations.

II. Setting the Goal for Operating Reserves

A. Oversight and Periodic Review

The Finance Committee is responsible for oversight of the use of the Operating Reserves, for periodic review of the target size of the Operating Reserves, and for implementation of these policies.

B. Initial Operating Reserves Goal

XYZ's initial goal is to establish an Operating Reserve equal to three months of average operating costs. The calculation of average monthly operating costs includes all recurring, predictable expenses such as salaries/benefits, occupancy, office, travel, program, and ongoing professional services. Depreciation, in-kind, and other non-cash expenses are not included in the calculation In setting a goal, the Board acknowledges:

- The target amount will change as budgets increase or decrease;
- Meeting the target, especially as the fund is initially established, may take a number of years; and
- The balance will increase and decrease as funds are added under Section III of these policies, or expended under Section IV of these policies.

C. Periodic Adjustment to Operating Reserves Goal

The Finance Committee is responsible for the annual review of the Operating Reserves goal and adjusting the target goal for the fund. In considering the appropriate target for the Operating Reserves, the committee should consider:

- History of budget variance over the prior 24 months and the range of that variance;
- The possibility of economic recession and the impact that will have on increased demand for services and decrease in fundraising revenue;
- The potential for major capital expenses and the costs for those improvements;
- The need for major investments in start up programs, mergers, or in organizational capacity building; and
- Other identified factors that may impact the organization's budget.

III. Funding the Operating Reserve

XYZ will fund its reserves in two ways: an allocation of a portion of deferred gifts, and allocation of unspent funds remaining at year end.

A. Allocation of a Portion of Deferred Gifts

XYZ will allocate 50% of all undesignated deferred gifts such as bequests, charitable trust distributions, IRA beneficiary designations, and similar gifts triggered by the death of the donor to the Operating Reserve. The balance of these undesignated deferred gifts will be allocated to quasi-endowment.

B. Allocation of a Portion of Excess Funds at the End of the Fiscal Year

- XYZ will first allocate any net income at the end of a fiscal year to the CFO's one-month reserve account to bring it to a one-month balance.

- XYZ will allocate all remaining funds to the Operating Reserve fund.

- In the event the excess funds at the end of the fiscal year are comprised of one or more large one-time gifts, the Finance Committee may recommend that a portion of those gifts be allocated to quasi-endowment, subject to board approval.

IV. Use of Reserves

A. Purpose of Distributions

The Operating Reserve is designed to address the following:

1. Manage the organization's cash flow making it less reliant on a line of credit;
2. Unbudgeted, unanticipated variances in expense such as increased salary and benefit costs due to an increase in medical costs, or changes in the law that mandate increased salary, audit adjustments on contracts, or increases in costs of insurance on properties;
3. A one-time unbudgeted expense;
4. An unanticipated loss of revenue through loss of grants, loss of a key donor, or a decrease in fundraising due to economic reasons;
5. Cover short-term opportunity costs associated with mergers, or starting new programs; and
6. One-time, non-recurring investment in organizational capacity such as strategic planning, staff development, investment in infrastructure, or investment in fundraising capacity.

The Operating Reserve is designed to be used and replenished within a twelve-month period of time and is not intended to replace a permanent loss of funds or eliminate an ongoing budget gap.

B. Process for Approval

1. Temporary Use of Operating Reserve as a Line of Credit

The CFO shall have the authority to use the Operating Reserve in place of a line of credit for normal cash variances in the operating budget tied to cash flow and will be returned to the fund within six months. This decision should be made based on the lowest cost in accessing funds.

2. Permanent Use of Funds to Cover Unbudgeted Variances

The CFO shall notify the Finance Committee in writing when a need arises requiring a permanent withdrawal of funds from the Operating Reserve to address unbudgeted costs or unanticipated variances in expenses or revenue. This request shall include the analysis and determination of the use of the funds and plan for replenishment within a twelve-month period. If the use of the Operating Reserves will take longer than twelve months to replenish, the request will be reviewed more carefully. The Finance Committee will approve or modify the request and authorize transfer from the fund. All uses of the Operating Reserve approved by the Finance Committee shall be reported to the Executive Committee and to the full Board at its next meeting.

V. Investment of Operating Reserves

A. Primary Goals

XYZ's primary objectives in short-term investment are safety of the principal, liquidity so that funds are available as needed, and yield that maximizes results within those parameters. Of these three, safety of the principal is the foremost objective.

B. Investment Options

1. Duration

The average duration of the short-term investment portfolio should not exceed nine months, and individual securities shall not have a maturity longer than 24 months.

2. Permitted Investments

The following investment options are permissible for the Operating Reserves, so long as they comply with the parameters above:

- U. S. Treasury Obligations
- Federal Agency Obligations
- Certificates of Deposits/Time Deposits
- Corporate Debt Obligations with a rating of at least AA by Standard and Poor's and a maturity of no more than two years from the date of purchase
- Commercial Paper with a maturity of 270 days or less issued by domestic corporations with a short-term debt rating of no less than A-1
- Money Market Mutual Funds (open ended)

Additional similar short-term investment options may be recommended by the CFO and approved by the Finance Committee as appropriate.

VI. Changes to These Policies

A. Annual Review of Endowment Policies

The Finance Committee shall make an annual review of these Operating Reserve Policies on a schedule set by the Committee and make any recommendations for change or recommendation that no changes be made to the Board of Directors no later than March 31 of each year.

B. Approval by the Board of Directors

All changes recommended by the Finance Committee, or its recommendation that no changes be made, shall be presented to the Board of Directors at its next regularly scheduled meeting, considered, and approved as appropriate.

APPENDIX B
XYZ CHARITY SAMPLE ENDOWMENT POLICIES

I. GENERAL ENDOWMENT POLICIES

A. Purpose

The Board of Directors of XYZ Charity (hereinafter "XYZ") recognizes the importance of establishing policies for the creation and management of endowed gifts to XYZ Endowment (hereinafter XYZ Endowment) to ensure fiscal integrity, accountability, transparency, and to support donor investment in XYZ's long-term mission and vision.

A-1. Role of Endowment. The XYZ Endowment holds funds committed to XYZ's charitable mission and vision to ensure its ability to make long-term investments in its charitable mission. XYZ's endowment represents permanent operating reserves created through engaging its donors funding long-term solutions to the community's greatest human services needs. Endowed funds allow XYZ to execute key strategies, sustain services through economic downturns that increase need and limit resources, and to act quickly when opportunities to meet critical community needs arise. XYZ encourages individual donors, corporate donors, and foundation donors to establish permanent funds as a part of its endowment to benefit and further the mission of XYZ.

A-2. Role of Policies. These endowment policies are designed to define the standards for acquisition, administration, and management of endowed gifts. These policies anticipate the most common issues encountered in developing and managing endowed gifts. In the event these policies do not anticipate a specific gift issue, the Endowment Oversight Group, as described in Section I-C, shall determine the recommended course of action.

B. Endowment Definitions

B-1. Endowment Funds. Endowed funds are those funds committed to the long-term or perpetual use of XYZ where the principal is invested and the earnings from the gift are use to fund areas of interest directed by the donor and approved by the Board of Directors in the case of restricted endowments, or for the purposes designated by the Board of Directors in the case of unrestricted endowments. The endowment pool will hold two types of endowed funds: true endowment and quasi-endowment.

[a] True Endowment. True endowment is any gift where the donor, in writing, directs the principal of the gift to be invested and the earnings to be used for XYZ's restricted or unrestricted purposes. This written restriction on use of principal may be in the form of a letter, other written instruction accompanying the gift, written instruction on a pledge card, endowment agreement, bequest under will, testamentary gift under a revocable or living trust agreement, or similar written direction.

[b] Quasi Endowment. A quasi endowment is a gift contributed to XYZ without endowment restriction which is subsequently allocated to endowment at the direction of the board. Funds allocated to the endowment by the Board can be withdrawn or recharacterized by the Board at a later date or otherwise expended in accordance with Section V. (C) of these policies.

B-2. Separately-Accounted Funds. Separately-accounted funds are those funds requiring separate accounting of principal and income of the funds, and in some cases an alignment of that fund's income with the purposes stated by the donor. Due to the cost of separate fund accounting, alignment of income and oversight to ensure the funds are spent for the purpose intended, and annual accounting to the donor, the endowment policies herein require such funds to meet minimum funding levels.

B-3. Pooled Endowment Funds. Pooled endowment funds refers to the pooling of contributions from multiple donors for a single purpose. This purpose may be as narrow as a specific area of interest or as broad as the unrestricted use of XYZ. Donors to pooled funds do not receive an accounting relating to their contributions although they do receive an annual report of the impact of the pool.

B-4. Endowment Naming Opportunities. A donor creating a separately accounted fund may associate his name, or a name selected by the donor and approved by XYZ, to the separately accounted fund. In addition, XYZ may allow a donor to associate his name with a pooled fund at certain contribution levels.

B-5. Unit Accounting. To the extent possible, endowment gifts are pooled, or combined, in XYZ's general endowment pool for investment purposes. Unit accounting is employed to track separately accounted funds and pooled funds by assigning a value to units and allocating units to each fund depending on its value. Unit accounting allows XYZ to allocate investment gains, investment losses, investment income, and investment and administrative fees.

B-6. Uniform Prudent Management of Institutional Funds Act. Charitable endowments for California nonprofits are governed by the [here insert the state code reference], the Uniform Prudent Management of Institutional Funds Act. Under this statute, "endowment fund" is defined as "an institutional fund or part thereof that, under the terms of a gift instrument, is not wholly expendable by the institution on a current basis." The term does not include assets that XYZ designates as an endowment fund for its own use.

C. Endowment Oversight Group

C-1. The Role of the Endowment Oversight Group. The role of the Endowment Oversight Group is to:

- Ensure systems and practices align to create a swift review, acceptance, establishment, reporting, and stewardship of endowed funds in accordance with the policies set out herein;
- Maintain ongoing and accurate information about new funds established on behalf of XYZ;
- Ensure appropriate and timely communication with all areas of XYZ involved in endowment review, acceptance, administration, reporting, and stewardship; and
- To resolve roadblocks, answer questions, and address issues as they arise.

The Endowment Oversight Group is the responsible authority for oversight and management of the endowment and for final approval of all new funds.

C-2. Members of the Endowment Oversight Group. The Endowment Oversight Group should be comprised of the following members or individuals (or individuals delegated by these members):

- Chief Development Officer (Chair)
- Chief Executive Officer
- Chief Financial Officer
- Chief Operating Officer

- The Chair of the Board Endowment Committee
- The Chair of the Board
- Such other members as are appointed by the Chief Executive Officer

C-3. *Meetings*. The Endowment Oversight Group will initially meet to draft and adopt these policies and to make a recommendation that the policies be adopted by the Board of Directors. Thereafter, the group will meet as required to resolve issues and review progress in building endowment, but no less than semi-annually.

D. Administrative Fees

To provide for reasonable and actual costs (both direct and indirect) of managing the endowment funds, XYZ shall annually charge a fee, not to exceed one percent of the funds in hand on the first business day of the fiscal year, on each endowment fund based on the fair market value of the funds.

II. CREATING ENDOWED FUNDS

A. Endowment Structure

A-1. *Goals of Endowment Structure.* A well-structured endowment not only communicates the impact of expenditures, but provides a method for donors to designate gifts to specific areas, without limiting the use of the gifts through narrow restrictions.

A-2. *Areas of Endowment Giving.* The endowment will be divided into four sectors as set out below:

[a] *Housing*
- *Affordable Housing*
- *Crisis Response Housing*
- *Rapid Re-Housing*
- *Transitional Housing for Former Foster Youth*

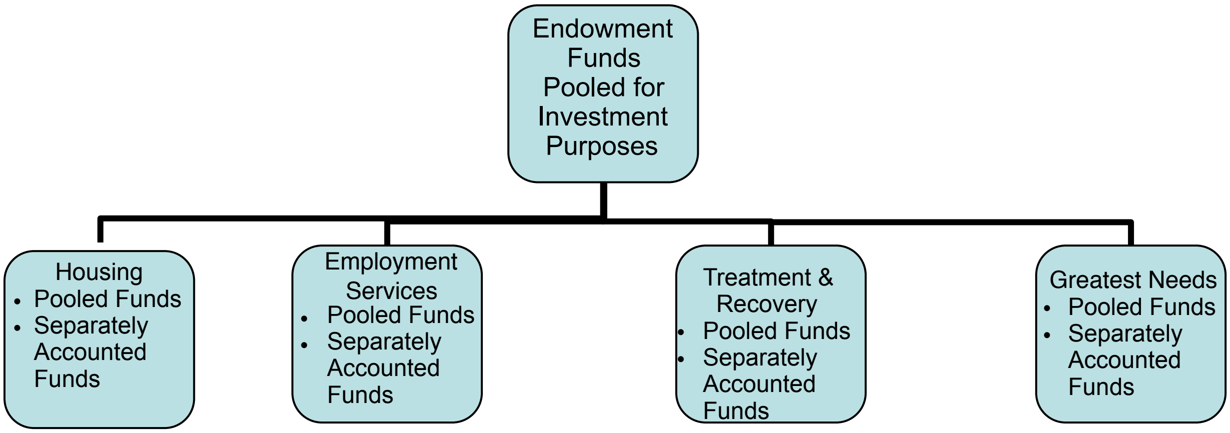
[b] *Employment*
- *Mather Community Campus*
- *Veterans Employment Services*
- *Specialized Training Employment Services*

[c] *Treatment and Recovery*
- *Substance Abuse*
- *Mental Health*

[d] *Greatest Needs (Unrestricted*
- Unrestricted funds to be allocated by the board annually to the greatest, most urgent needs of the organization (including operations)

A-3. *Pooled Funds for Each Category***.** Each of the four areas of interest will be established as a separately-accounted pool to allow donors at any gift level to make gifts to the pool. Those gifts may be used for any purpose within that designated area as the Board of Directors deems appropriate. Donors may create named funds within a sector in accordance with B-5(b) and may create separately accounted funds within a sector in accordance with B-5(a).

REPRESENTATIVE ENDOWMENT STRUCTURE



B. Establishing a New True Endowment Fund

B-1. General Guidelines. New endowments benefiting XYZ should meet the following general requirements:

- The endowment purpose must fit within and fulfill XYZ's mission and purpose;
- The endowment terms must fall within the policies set out in this section, or be approved by the Endowment Oversight Group as an exception;
- XYZ must be able to manage the endowment on a cost effective basis and to administer the fund in accordance with the terms of the endowment agreement;
- When possible, the endowment should be governed by a document that clearly defines the gift purpose and provides long-term, non-judicial flexibility in the event circumstances change over the term of the agreement, provided, however, such documents may not be possible where endowed gifts are created through a deferred gift about which XYZ had no knowledge.

B-2. Fiduciary Responsibility. The Board of Directors has a fiduciary responsibility for acceptance, oversight, and management of endowed funds subject to California law and applicable federal laws. The new account acceptance process is designed to ensure XYZ meets all fiduciary, legal, and administrative requirements of the gift, that the donor is provided all relevant information about the use of the gift, and to encourage and support donors in making endowed gifts to XYZ.

B-3. Maintaining the Balance of Interests on Gift Acceptance. XYZ should balance the needs of XYZ and the interests of the donor in acceptance of endowed gifts.
[a] The Needs of XYZ. XYZ's goal is to ensure that:

- All new endowments support XYZ in furtherance of its missions and programs;
- All new endowment documents will be structured in a way that XYZ can administer and manage on a cost-effective basis;
- All assets contributed to fund endowed funds can be reduced to cash and invested in a cost effective manner, and do not create potential liability for XYZ upon acceptance;
- Donors understand the terms of the endowment and that those terms are reduced to writing; and

- That XYZ has long-term, non-judicial flexibility to adjust the terms of the endowment if the purpose specified becomes impractical, impossible, or too small to administer effectively.

[b] *The Interests of the Donor.* Donors who make endowed gifts to XYZ support the long-term growth of its programs and services, and generally have specific personal goals as well. XYZ shall make the process of creating a permanent endowment:

- As transparent as possible, explaining to the donor how the gift will be used, the timing of distributions from the fund, accounting, if any, that will be provided, and a sample document containing this information;

- As positive as possible, reflecting the gratitude for the donor's gifts;

- As supportive as possible, providing information as requested about structure and the assets to be used to fund the endowment on a timely basis, providing sample documents or other requested information and encouraging them to consult with their personal advisors for information and advice; and

- As timely as possible.

B-4. Approval of New Endowed Funds. All endowment documents must be signed by:

- The Donor
- The Chief Development Officer
- The Chief Executive Officer

B-5. General Standards for Minimum Fund Sizes. XYZ's Board of Directors recognizes it is not feasible to accept separately accounted endowment gifts that are so small the costs to administer and account for the funds would exceed the charitable distributions from such funds. Therefore, the following minimums govern new endowed funds:

[a] *Minimum Size for Separately-Accounted Funds.* The minimum size for new endowment funds requiring a separate accounting and alignment of income is $100,000 These funds will require separate financial tracking and alignment of the fund's income with the purpose designated.

[b] *Minimum Size for Named Funds.* The minimum size for new endowment funds requiring no separate accounting but reporting the donor's name(s) in each year's endowment report is $50,000

[c] *Minimum Size for All Other Gifts.* Endowment contributions less than $50,000 must be contributed to a pooled fund sector. All undesignated gifts shall be allocated to the unrestricted sector which can be used for the areas of greatest need as determined by the Board of Directors.

[d] *Exceptions.* Exceptions to these minimums may be made only by the Endowment Oversight Group.

B-6. Contributions to Existing Funds. Contributions to existing funds may be made in any amount. Such contributions will be governed by the document governing the fund to which the additions are made. Donors contributing to existing funds may do so using a Letter of Agreement that directs the contribution to a specific fund, subject to the terms of that document.

C. Funding Quasi-Endowment

XYZ may fund quasi-endowment in several ways:

C-1. Allocation of a Portion of Deferred Gifts. XYZ will allocated 50% (or more if so designated by the Finance Committee) of all undesignated deferred gifts such as bequests, charitable trust distributions, IRA beneficiary designations, and similar gifts triggered by the death of the donor to Quasi-Endowment. The balance of these undesignated deferred gifts will be allocated t to the Operating Reserve.

*C-2. Allocation of a Portion of Large Gifts Made During the Ye*ar. Occasionally, XYZ will receive a large gift made by a donor upon the sale of a business, retirement, or other financial triggering event. The Finance Committee, with the approval of the Board, may allocate a portion of this gift to quasi-endowment.

C-3. The Sale of a Capital Asset. Occasionally, XYZ may sell an asset without the need to reinvest such asset in similar property. The Finance Committee, with the approval of the Board, may allocate all or part of these proceeds to quasi-endowment.

C-4. Donor Allocation. Donors may choose to allocate gifts to quasi-endowment.

D. Use of Endowment Agreement for Separately-Accounted Funds

D-1. General Intent. Endowment donors who create separately-accounted funds should use one of XYZ's sample Endowment Agreements copies of which are attached to these policies as Appendix A. Such an agreement has the advantage of clearly defining the donor's goals and expectations in creating the gift, stating the purposes for which the fund's revenue will be applied, and providing flexibility for change or early termination as necessary. XYZ's General Counsel will be responsible for drafting and publishing such sample documents for donors and their advisors.

D-2. Elements of the Endowment Agreement. The endowment agreement should contain the following elements:

- Name of donor(s)
- Name of fund or name of pooled fund
- Date of agreement
- Term of agreement
- Purpose of fund use (as broadly stated as possible to allow perpetual use of the funds), purposes for which funds may be dispersed, and discretion to approve distributions
- Manner and schedule for funding
- Ability to add funds to endowment (and requiring that those funds are administered in accordance with the document)
- Ability to pool investments (state law allows)
- Administration of funds

- Manner of amendment
- Philanthropy Protection Act of 1995
- Contingency language stating that when the specified purpose becomes illegal, impractical or can no longer be carried out or meet the needs of XYZ the Board of Directors may designate an alternate charitable use, and that the funds can be transferred to an endowment fund that reflects most closely the donor's gift goals, or to XYZ's general endowment.

D-3. Language Not Permitted. Documents will not be accepted that allow the donor, or an individual named by the donor, to retain the right to direct, approve, or otherwise influence investment decisions after the gift is complete.

III. STEWARDSHIP STANDARDS

A. The Role of Stewardship

Stewardship of endowment donors and donors who make deferred gift commitments to endowment is of paramount importance in ensuring accountability of the gift purpose, increasing the gift satisfaction of donors, and maintaining ongoing relationships with donors.

B. Annual Stewardship Plan

XYZ's Chief Development Officer, working with the Chief Financial Officer, shall create an annual stewardship plan for current and deferred endowment donors.

B-1. Annual Reporting and Communications. XYZ is committed to reporting to its donors and the general public about its endowment. For this purpose, XYZ will include endowment information in its annual report, in its campaign report, in a separate report on endowment, on its website, and in other forms as appropriate.

[a] Annual Report. Endowment information in the annual report shall include:

- The endowment's net assets and investment return for the prior five years, highlighting the current year return;
- The market value of each endowment sector and the endowment as a whole;
- A general report of endowment spending for the year with a focus on the impact of those distributions; and
- Such other information as the Chief Development Officer and Chief Financial Officer deem appropriate.

[b] Annual Endowment Report. An annual endowment report shall be prepared for donors, donor families, endowment prospects, and the interested public. This report may be prepared as a stand alone report or a subset of the annual report.

- The endowment's net assets and investment return for the prior five years, highlighting the current year return;
- The market value of each endowment sector and the endowment as a whole;
- The fund names associated with each endowment sector;
- Information for donor advisors that includes contact information, one or more sample endowment agreements (approved by General Counsel), and areas of need;
- The case for endowment;

- A list of current year endowment donors;
- A report of endowment spending;
- Such other information as is necessary to fully disclose endowment spending and creation.

[c] *Endowment Information on Website.* The website should include the following endowment information

- The endowment's net assets and investment return for the prior five years, highlighting the current year return;
- The market value of each endowment sector and the endowment as a whole;
- The fund names associated with each endowment sector;
- Information for donors and donor advisors that includes XYZ contact information, one or more sample endowment agreements, and areas of need;
- The case for endowment;
- A list of current year endowment donors;
- A general report of endowment spending;
- Information on how to make a gift to endowment (including various gift forms);
- Such other information as is necessary.

C. Annual Contact with Living Donors for Separately Accounted Funds

The XYZ stewardship plan should contain, at a minimum, the following activities for living donors with separately-accounted funds; stewardship will be provided by the the individual assigned by the Chief Development Officer.

- An XYZ annual report
- An endowment annual report (if separate)
- A personalized letter reporting the fund balance and the impact of the fund for that year, signed by the President & CEO of XYZ
- At least one phone call from a program staff member at XYZ to say "thank you" to the donor
- At least one phone call from the planned giving telephone team to say "thank you to the donor" and to ensure that donor has the information he or she needs to monitor the fund performance
- Such other materials or activities as are appropriate

D. Annual Contact with Living Donors with Named Funds

The XYZ stewardship plan should contain, at a minimum, the following activities for living donors with named funds.

- A XYZ annual report
- An endowment annual report (if separate)
- A personalized letter reporting the general impact of the spending from the endowment sector for that year signed by an individual associated with that sector
- At least one phone call from planned giving telephone team to say "thank you to the donor" and to ensure that donor has the information he or she needs to monitor the fund performance
- Such other materials or activities as are appropriate

E. Annual Contact with Current Donors to Endowment with Neither Named Nor Separately Accounted Funds

The XYZ stewardship plan should contain, at a minimum, the following activities for donors to endowment with neither named nor separately accounted funds who have made gifts of $10,000 or more stewardship will be provided by the individual assigned by the Chief Development Officer.

- An XYZ annual
- An endowment annual report (if separate)
- Such other materials or activities as are appropriate

F. Annual Contact with Families of Deceased Donors with Separately Accounted or Named Funds to Endowment

- An XYZ annual report
- An endowment annual report (if separate)
- A personalized letter reporting the fund balance and the impact of the fund for that year, signed by an individual associated with the relevant endowment sector
- Such other materials or activities as are appropriate

IV. INVESTMENT MANAGEMENT POLICIES FOR ENDOWED FUNDS

A. Responsibility for Management of Endowed Funds

The Board of Directors has designated responsibility for oversight of the investment management of endowed funds to the Finance Committee of the Board of Directors. The Finance Committee may decide to hire local managers to provide investment management of the funds or may use the national office of XYZ Charity's pooled endowment fund for investment management.

B. Related Policies

In the event the Finance Committee decides to use local managers for investment of the endowment funds, the Finance Committee shall create investment policies governing the management of those funds and shall submit them to the Board for approval. These policies will then be shared with the investment managers with responsibility for the funds to provide guidance in investment decisions.

C. Unit Accounting

XYZ pools all endowed funds over which it has ownership and control, unless otherwise prohibited by the gift document, to achieve the most effective, efficient, diversified, long-term management of the funds. When endowed assets are received, these new assets are assigned units in the pool based on the unit value on date of entry.

D. Spending Policy

D-1. Purpose. The XYZ Endowment Oversight has authorized the adoption of a spending policy which is designed to protect XYZ's budget from the vagaries of year-to-year fluctuations in market returns, changes in yields from year to year that result from changes in interest rates, dividend levels, and pay-out rates, and provide for a gradual increase in spendable earnings from year to year. Adoption of this policy is in accordance with the California Uniform Management of Institutional Funds Act and designed to protect the historic dollar value of the endowment. .

D-2. Spending Calculation. Each year the Finance Committee will recommend a spending amount expressed as a percentage of the average market value of the endowment pool over the prior 12 quarters. This percentage shall take into consideration the standards set out in Section 18504 of the California Probate Code, Uniform Prudent Management of Institutional Funds Act.

D-3. Determination of Annual Distribution. The Finance Committee will set the distribution amount within the spending policy set out above by May 1 of each year in order to allow XYZ prepare a budget for the year.

D-4. Undistributed Accounting Income. Any undistributed accounting income should be added to the corpus of the fund generating such income at the conclusion of each year.

D-5. Distribution Cycle. Distributions from endowment funds may be made on any cycle deemed appropriate to achieve the purpose of the funds and reduce administrative costs and oversight.

V. DECISIONS ABOUT DISTRIBUTIONS FROM ENDOWED FUNDS

A. Distributions from True Endowment Limited to Annual Spending Amount

Distributions from true endowments, which are funds restricted to endowment in writing by the donor, shall not exceed the annual spending amount set by the Board.

B. Distributions from Pooled Funds for Specific Endowment Sectors

B-1. Funds to Which This Section Applies. Donors may designate gifts of less than $100,000 to one of four specific program sectors (or an undesignated sector) under Section A A-3 of these policies. These funds are managed as a pool for the named sector. This section applies to distributions from each of the four specific program sector pools.

B-2. *Recommendations on Spending.* The Division Director aligned with each specific sector shall be notified of the pool spending amount and asked to make recommendations on how that sectors funds will be spent. Spending recommendations should reflect XYZ prorates, new programs, or other spending representing key, unfunded budget items. These recommendations shall be made by June 1 of each year.

B-3. Approval of Spending. Spending recommendations shall be approved by the President & CEO of XYZ and reported to the board at its next regular meeting.

C. Distributions from Quasi-Endowment

To the extent possible, annual distributions from quasi-endowment - which are funds allocated to endowment by the Board - shall not exceed the annual spending amount set by the Board. However, in the event of special circumstances such as those detail below should arise, distributions of up to ___% of the quasi endowment fund upon approval of a majority of the Board of Directors.

- The Board of Directors wants to acquire an agency to deliver one or more critical services;
- The Board of Directors wants to borrow from quasi-endowment to purchase real estate essential to its mission;
- XYZ is experiencing an extreme budget shortfall due to economic conditions or other unforeseen circumstances; or

- Such other extreme situation that could not be anticipated.

Quasi endowment shall not be spent down as part of a regular annual budget-balancing distribution from funds.

VI. CHANGES TO THESE POLICIES

A. Annual Review of Endowment Policies

The Endowment Oversight Committee shall make an annual review of these endowment policies on a schedule set by the Committee and make any recommendations for change to the Board of Directors no later than March 31 of each year.

B. Approval by the Board of Directors

All changes recommended by the Endowment Oversight Committee shall be presented to the Board of Directors at its next regularly scheduled meeting, considered, and approved as appropriate.

APPENDIX C
SAMPLE LONG-TERM (ENDOWMENT) GIFT AGREEMENT

THIS AGREEMENT made and entered into this ___ day of ____________, 20__, by and between ________________________, hereinafter referred to as the "Donor", and ABC Charity, a nonprofit corporation organized and located __________, ___________.

W I T N E S S E T H:

WHEREAS, the Donor has transferred and delivered to ABC Charity the cash or property set out on Schedule A of this document to be held, invested and reinvested by ABC Charity in the manner set forth herein; and

WHEREAS, ABC Charity has accepted the donation for the purposes and under the considerations hereinafter set forth;

NOW THEREFORE, in consideration of the premises and the mutual covenants hereinafter set forth, the parties do agree as follows:

1. The donation is transferred and delivered to ABC Charity for the purpose of establishing the ____________________ Fund (the "Endowment.") and is to become an asset of ABC Charity and to be governed by the Articles of Incorporation for ABC Charity, and By-Laws of that organization, as amended from time to time.

2. The original contribution and any and all additional gifts subsequently transferred to ABC Charity either by the Donor or other interested contributors shall be held, invested and reinvested in the manner hereinafter set forth in paragraph 6.

3. The Donor requests that an annual distribution be made from the fund for the purposes described in paragraph 4. The amount of this annual distribution may be set by the Board of Directors of ABC Charity in accordance with a general endowment spending policy of ABC Charity. It is the intent of the Donor that the fund annually distribute a percentage of the annual market value of the fund (as determined by the Board of Directors), to include earned income and realized and unrealized gain, and that the corpus of the endowment will remain and grow in perpetuity.

4. The purpose of the Endowment is to [here insert the purposes for which the funds can be spent]

5. Should ABC Charity lose its tax-exempt status as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, (hereinafter the “Code”) and as an organization that is not a private foundation within the meaning of Section 509(a) of the Code, or otherwise cease to exist, the Board of Directors of ABC Charity shall distribute all assets remaining in the Endowment to its 501(c)(3) tax-exempt successor in interest so long as that successor is not a private foundation within the meaning of Section 509(a) of the Code to be used for the purposes outlined in paragraph 4. Should the successor in interest lose its tax-exempt status described in Section 501(c)(3) of the Code and as an organization that is not a private foundation within the meaning of Section 509(a) of the Code or otherwise cease to exist, then all assets remaining in this fund shall be distributed outright to charitable organizations qualified as 501(c)(3) organizations under the Internal Revenue Code that have purposes as similar as possible to those purposes listed in paragraph 4.

Should the purpose for which this Endowment is established cease to exist, represent a need so that the Board of Directors are unable to find purposes for use of such funds, or become impractical or too difficult to administer, then the Board of Directors, by majority vote, shall have the power to redirect the funds held in this Endowment for a purpose or purposes as similar as possible to the original intent of the Donor.

6. ABC Charity hereby accepts the property contributed to the Endowment and will hereafter invest it in accordance with the investment policies and procedures of ABC Charity. ABC Charity in its sole discretion is authorized to sell, exchange, or otherwise dispose of any securities or other property held by it at any time hereunder and to deliver such instruments as may be required by either a transfer agent, exchange, or other entity effecting such transfer. These assets may be pooled with other like assets in order to facilitate an orderly and cost effective management of assets for the organization. In addition, assets held by ABC Charity may be transferred to a Foundation created to support ABC Charity and its programs (upon a vote of its Board of Directors) if such transfer facilitates an orderly and cost effective management of assets. ABC Charity is authorized to use such methods as it deems necessary or advisable for the investment, sale, exchange, or transfer of any security held hereunder and to pay reasonable compensation and expenses in connection with the performance of said services. ABC Charity shall have the sole power to determine its investment policies and procedures and to decide any and all questions in connection therewith.

7. ABC Charity may hire agents to provide investment advice, administrative management, and tax preparation as are reasonable and necessary to carry out its duties. Fees and expenses for these services shall be charged first against the income of the Endowment, and then the fund principal on a pro-rata basis against all funds held in ABC Charity together with any necessary administrative costs of ABC Charity in managing these assets.

8. This Agreement shall be irrevocable and the Donor hereby expressly acknowledges that he/she shall have no right or power either alone or in conjunction with others and in whatever capacity to revoke or terminate this Agreement; provided, however, nothing herein contained shall be interpreted so as to prevent the Donor from making further contributions to this Endowment.

9. Investment funds managed by ABC Charity are exempt from the registration requirements of the federal securities laws pursuant to the exemption for collective investment funds and similar funds maintained by charitable organizations under the Philanthropy Protection Act of 1995 (PL 104-62). Information on the investment of those funds was provided to the Donor upon execution of this document.

10. This constitutes the full and complete agreement by and between the parties and all oral agreements and/or discussions are merged herein and are null and void to the extent that they are in conflict with the terms of this document. In no event shall this Agreement be treated or interpreted as creating a separate trust. No changes, alterations, additions, modifications, or qualifications shall be made or had in the terms, conditions, or provisions of any paragraph or item of this Agreement. Nor shall any amendment, modification or alteration be permitted that would result in this Endowment being treated as a separate trust or that would affect the status of ABC Charity as an organization described in Section 501(c)(3) of the and as an organization which is not a private foundation within the meaning of Section 509(a) of the Code.

11. This Agreement shall be governed by, and construed under, the laws of the State of _____. Jurisdiction and venue for all purposes shall be in the appropriate County of the State of _____.

12. This Agreement is binding upon the parties hereto, their successors and assigns.

IN TESTIMONY WHEREOF WITNESS the signatures of the parties hereto the day and year first above written.

______________________________ ______________

"Donor" Date

____
ABC Charity

BY:____ ____________________
Executive Director Date