



# MAKING ENDOWMENT DECISIONS: INSIGHTS AND POLICIES

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# THE ROLE OF ENDOWMENT



# LET'S START WITH A DEFINITION OF ENDOWMENT

- Endowment: Funds set aside for the long-term use of the charity, the principal of which is invested and the earnings of which are used to advance charitable mission.

## Types of Endowment Funds



**True Endowment Fund**

**Term Endowment Fund**

**Funds Functioning as  
Endowments  
(Quasi Endowments)**



# COMMUNICATING PURPOSE AND IMPACT

- Is your endowment simply a budget plug?
- Or does it have clear purpose?
- Share the impact of endowment over time.





# ENDOWMENTS ARE POWERFUL WHETHER LARGE OR SMALL!

Year	Balance on January 1	Growth of 7.5%	Distribution of 4.5%	Ending Balance
1	<b>\$10,000</b>	\$10,750	\$483	\$10,266
25	\$18,788	\$20,187	\$909	\$19,288
50	\$36,239	\$38,957	\$1,753	\$37,204
100	\$134,825	\$144,937	\$6,522	<b>\$138,415</b>
Total Over Period			<b>\$233,318</b>	



# ENDOWMENTS ARE POWERFUL WHETHER LARGE OR SMALL!

Year	Balance on January 1	Growth of 7.5%	Distribution of 4.5%	Ending Balance
1	<b>\$100,000</b>	\$107,500	\$4,838	\$102,663
25	\$187,882	\$201,873	\$9,089	\$192,884
50	\$362,393	\$389,573	\$17,531	\$372,042
100	\$1,348,254	\$1,449,373	\$65,222	<b>\$1,384,151</b>
Total Over Period			<b>\$2,333,176</b>	



# ENDOWMENTS OFFER UNIQUE OPPORTUNITIES FOR DONORS

- Donor can select the purpose for the endowment.
- The gift can involve or honor family.
- This is an opportunity to give back.
- Treat every donor as if they have the power to change the world - because they do.





# THE PERFECT PROFILE FOR SUCCESS

- In existence at least 10 years or more
- A history of strong program growth
- A growing fundraising program
- Stable nonprofit staff
- Financial officer with an understanding of and ability to manage endowment
- Commitment of the board and executive team







# THE CHALLENGES IN BUILDING AND MANAGING AN ENDOWMENT



# THE INTERNAL CASE: WHY YOU NEED AN ENDOWMENT

- If you're going to have a consistent endowment effort, you need to know why you have an endowment.
  - Everyone needs to be engaged
  - Need to do ongoing reporting
- Ensure ability to make long-term investment in charitable mission
  - Execute key strategies
  - Sustain services through economic downturns that increase need and limit resources
  - Act quickly when opportunities to meet critical needs arises



# THE EXTERNAL CASE: WHY SHOULD DONORS INVEST IN ENDOWMENT?

- The case for donor investment looks much like the case for deferred giving
- Donors are interested in plugging budgets - they invest for impact

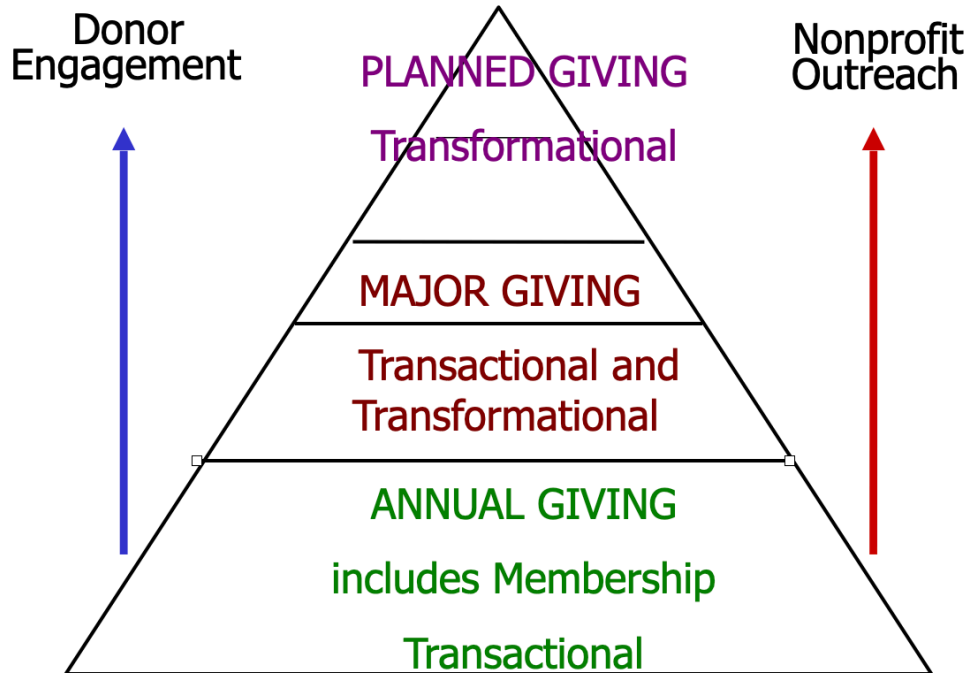
The case should be:

- Urgent
- Compelling
- Powerful vision
- Position donor as solution



# WHY ENDOWMENT AND DEFERRED GIFTS ARE LINKED

## The Fundraising Pyramid





# SAMPLE CASE STATEMENTS

## STATE UNIVERSITY

ABC State University has made a commitment to build long-term resources that allow it to create and maintain an educational platform that will create life-long success for the students in this state. Achieving this vision will require the support and commitment of its alumni, key supporters, and the community. Take this opportunity to invest in the future of students with a gift through your will or estate plan.

## RESEARCH ORGANIZATION

Without your help ABC's work is not possible. Give today to provide immediate support for those living with [abc disease] and to accelerate research that extends the lives of those with [abc disease] and opens the door to a cure.



# POSITIONING THE ENDOWMENT TO REFLECT PURPOSE

- Identify four to five sectors of impact and organize/report on your endowment in those categories.
- Here's an example:





# MAKING THE ENDOWMENT VISIBLE



- On the website
- In your annual reports
- In your newsletters and marketing
- Wherever donors go to learn more about you





# ADOPTING ENDOWMENT POLICIES



# WHO TO ENGAGE/THE TASK FORCE

## **CEO**

- Strategic planning
- Prioritize reporting to the board and donors
- Adopt policies
- Assign oversight
- Set goals
- Support calls

## **CFO**

- Manage acceptance and liquidation of gifts
- Manage accounting and reporting
- Work with endowment oversight committee
- Work with investment committee

## **Development staff:**

- Training
- Marketing
- Identify donors
- Engage donors
- Close gifts
- Steward donors



# WALKING THROUGH THE OPTIONS

- Use the Task Force
- Use a draft set of endowment policies (provided with these materials)
- Walk through each section, making decisions that fit your nonprofit's size and mission
- Take the draft to the board for approval, walking them through the big decisions made in the policies



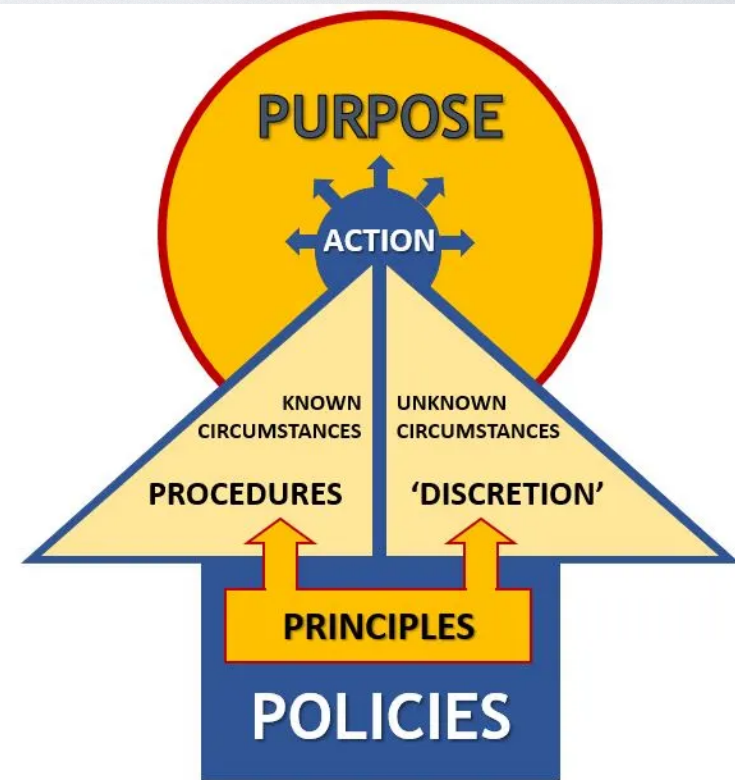


# THE POLICIES THEMSELVES: THE KEY AREAS OF DECISION



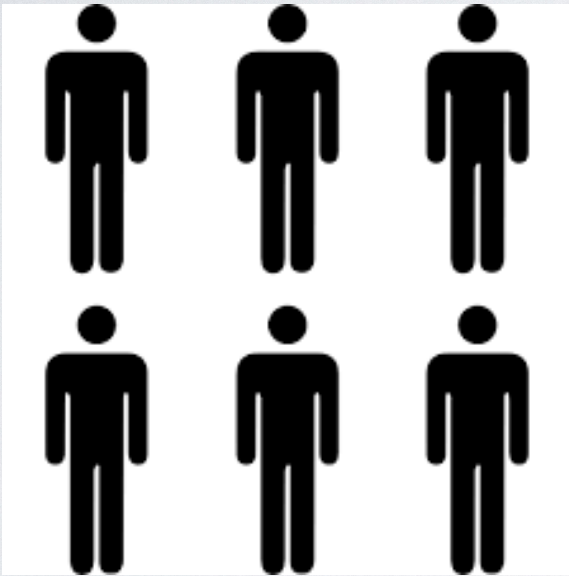
# THE PURPOSE OF THE POLICIES

- Ensure fiscal integrity
- Ensure accountability
- Ensure transparency, and
- Support donor engagement.





# ENDOWMENT OVERSIGHT GROUP



- Chief Development Officer (Chair)
- Chief Executive Officer
- Chief Financial Officer
- Chief Operating Officer
- The Chair of the Board Endowment Committee
- Such other members as are appointed by the CEO



# FEES

- How will you cover costs for:
  - Investment management
  - Internal staff time
  - Outside services





# THE ENDOWMENT AGREEMENT

- Name of donors
- Name of fund
- Purpose of fund
- Manner and schedule for funding
- Ability to add funds
- Pooled investment
- Fees and Administration
- PPA 1995
- What if things change.....



# CREATING NEW FUNDS: STRUCTURAL DECISIONS

- Will you use the sector approach?
- What is your minimum size?
- Will you consider a pooled fund for smaller gifts (no separate reporting)
- What type of restrictions will you allow?





# INVESTING FUNDS



- Investment policies for long-term funds should be separate
- You need professional management, and regular reporting that compares returns to indices
- Be aware of the provisions of the Philanthropy Protection Act of 1995



# LET'S LOOK AT THE BASIC RULES

- Endowments are governed by each state's Uniform Prudent Management of Institutional Funds Act (UPMIFA)
- This generally covers true endowments (and may cover term endowments depending on the document terms); it does not generally cover quasi-endowments
- Key provisions: standards for investment, standards for payout, and ability to change terms for endowments of \$xxx or less (varies by state) that have been in place 20 years or more (with notice to the Attorney General)





# SPENDING POLICIES



- Generally set as using three-year average and a set percentage.
- UPMIFA requires that you consider specific factors in setting spending.
- Generally, this is the responsibility of the Finance Committee.
- Spending policy should be reviewed annually.



# STEWARDSHIP

- What types of reporting will you provide to your donors?
- What will it look like?
  - Financial results, including account receipts, distributions, earnings, fees
  - Impact of those gifts





# DISTRIBUTIONS FROM FUNDS

## True endowment

- Restricted funds
- Unrestricted funds



## Quasi-endowment

- When is principal withdrawn? Are there limits?
- Who makes decisions on discretionary funds?



# MAKING CHANGES

- Limited options:
  - If donor is still alive, the donor can make changes.
  - If less than \$xxx in size, and has been in place 20 years or more, may make changes in purpose with notice to AG (cannot change from endowment to spendable)
  - Otherwise, must take it to court to get approval for changes.







# PRACTICAL ISSUES



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- Fund administration
  - You must be able to account for additions, distributions, investment earnings, and fees.
- Reporting
  - You must be able to send statements to donors on an annual basis showing the activity in, impact of, and growth of their endowed fund.





# PRACTICAL ISSUES

- Tracking restricted purposes
- Think about how you track restrictions over time.
- Would you be able to “show” appropriate expenditures if challenged?
- Many lawsuits challenging misuse of endowment - can happen easily with change in staff and culture.







# QUESTIONS?

