

Do you Need an Endowment Policy?

As part our work, we are often asked by clients to review their Endowment Policy. Occasionally, we are even asked to develop a brand-new Policy.

But these requests have got me thinking. Do charities need a separate Endowment Policy? Do they need an Endowment Policy at all?

In the past, I've written several articles about Endowments, including questioning the use of the term itself. In Canada, I would suggest that an endowment has come to mean any gift that is not spent in the short to medium term. For example, if a donor and charity agree that the donor's \$1 million dollar gift will be used over 10 years, I would argue that this is an endowment, even though the gift is not a traditional permanent fund (where the capital is held intact and the income is used to fund charitable activities). In fact, charities are using terms like "spend-down endowments" to describe these gift structures.

There are essentially two types of restrictions that can be placed on a gift – how (*when*) it is *spent* and how it is *used* (i.e., in support of charitable activities). I would suggest that your policy needs to address these two types of restrictions. Whether you do that in the context of an Endowment Policy or as part of a broader Gift Acceptance Policy is entirely up to you and your organization (for me, I tend to recommend that charities have fewer policies so I would suggest trying to incorporate this into an existing policy).

Your "Endowment" policy must address the following issues:

How/When a gift is *spent*

First, it is important to note that the charity and the donor must agree on how the gift is spent. For example, a donor may want to set up a perpetual endowment fund (again, where capital is held intact) but the charity may, for very understandable reasons, not want to accept a gift under those terms.

An endowment policy must address the terms under which the organization is willing to accept a gift. As an organization, are you willing to allow for permanent, perpetual endowments where the capital is held intact? Or are you only willing to accept a gift that must be spent after a certain number of years? These are the parameters which set the tone for how your organization manages "endowments". Furthermore, if you are willing to accept permanent endowments, your policy should ensure that funds are spent in accordance with disbursement quota requirements.

How a gift is used

A donor may restrict the terms under which a gift may be used. These restrictions include limitations, conditions or other restricting factors.

Will you allow donors to direct their gifts to certain programs or activities? Will there be a minimum gift requirement in order to allow such restrictions? Again, I think these questions are best addressed in the context of a broad gift acceptance policy which covers off these issues.

Gift requirements for a separately named fund

Many donors will want to create a separate fund and will ask that the charity report to them each year on how their gift is used. Some charities call this an *Endowment Report* or simply a *Donor Report*, but it is an important element of donor stewardship. What is the minimum requirement for a separately-named fund? While there is no universal answer, my suggestion here is to go bigger, not smaller. Separately-created reporting should be reserved for larger gifts. If you're a mid-size or larger charity, I'd suggest the minimum be at least \$100,000 for any separately named fund for which you are asked to produce a report for the donor.

Investments

Your endowment policy is NOT your investment policy. Your organization should have a separate investment policy which articulates how the organization's assets are invested, but your endowment policy should acknowledge that the donated funds are governed by the organization's investment policy

Donor Reporting

If a donor has created a separate fund, your policy should incorporate how you are going to report on that fund to the donor. How often will you report to the donor? Will you report on the fund's investment returns? Will you advise the donor on how the disbursed funds have been spent (e.g., on what charitable activities)?

Again, I believe that most of these issues can be addressed within an organization's gift acceptance policy and that there is typically no need for a separate "endowment" policy. But



addressing these issues will help guide donor conversations and set the path for a more inclusive giving environment.

