

As mentioned in a previous article, the meaning of *endowment* in Canada is a fleeting one, largely because the word lacks a formal legal definition. As a result, *endowment* has been subject to a myriad of conflicting definitions, resulting in considerable confusion for fundraisers and other charity personnel.

As a result of this confusion, it's probably easier to either scrap the word entirely or understand that it is open to significant interpretation. Rather than debate the term's meaning, it's probably easier to think of endowments in terms of spending restrictions that a donor places on a gift. Let me explain.

Most charitable gifts have no restrictions. In other words, I may make an irrevocable gift to a charity with absolutely no restrictions meaning that the recipient can use the gift as it chooses in furtherance of its mission (or its charitable purpose). In some cases, I may, with the charity's consent, place restrictions on how the gift is used. For example, I may make a gift to a hospital foundation with the restriction that it be used to support emergency services at the hospital.

Gift restrictions are not, however, limited to how a gift is *used*. Restrictions may also determine how a gift is *spent*. Again, donor and charity must agree on the terms. For example, I may make a gift of \$100,000 to a charity with the provision that it is spent equally (\$10,000) over ten years. Similarly, I may make a similar size gift to the same charity with a provision that the only the income generated from the gift is used for ten years and then the remaining capital is spent in its entirety after the ten-year period expires.

Are either of my gifts endowments? The answer, in short, is that it doesn't matter. What matters here is that the donor and charity are agreeing on spending restrictions. If they both agree, and if they are both happy with the arrangement, then I would argue strongly that everyone benefits.

Should my charity have an endowment fund? Should it allow, or encourage, donors to create endowments? This question perpetuates the confusion. Rather, the question is, or should be, should our charity allow donors to place restrictions on how gifts are spent.

Many donors like flexibility in terms of how their gifts are spent. They often prefer that their gift will be used to support not only the short-term interests of the organization but the future as well. While some charities may only prefer unrestricted gifts because a longer-term spending horizon may run counter to their mission, others may enjoy the longer-term stability that may accompany a different gift structure. A charity should decide, as part of its *gift acceptance policy*, what types of spending restrictions it will allow on gifts and under what conditions it will accept them.

For example, it may only allow restrictions on gifts that meet a minimum threshold. Or it may set a maximum period over which a gift may be spent (remember, perpetuity is a long time!). Either way, it should ask itself in advance whether it wants to entertain and encourage these conversations with its donors. And in doing so, the question of whether the charity should have an endowment will answer itself!