# Endowments

## Treasures of the Past, Keys to the Future, and Magnets for Planned Gifts

*by Bob Jones, Ph.D., Chair of the Resource Development Services Advisory Committee*

Endowments are not magical, but what they help accomplish can be. Sadly, most of us in the community-, family-, senior-, and child-serving fields have either a meager endowment or no endowment at all on which to leverage our mission. However, I believe we all have a huge opportunity that most of us have simply not fully tapped.

**Endowment defined.** The word endowment is frequently misused, so it may be helpful to begin with some definition. An endowed fund is a charitable gift established in perpetuity *by the donor* in which the principal is invested for total return (both income and appreciation), and a small portion of the fund's balance (typically 4-6 percent) is drawn down on an annual basis. An organization may have a number of endowed funds that were established for a variety of purposes and reasons, ranging from general agency support to specific program or infrastructure support. All of these endowed funds make up the agency's *endowment*. These are *restricted assets*, and the principal is not available to the agency or its board without court order (or written agreement of the donor—if still living).

This is a very different financial tool/instrument than a board "reserve fund," which is often referred to by an agency as its "endowment." Board reserved funds are *unrestricted net assets* and they may be invaded by the current or future board. They may be a great financial discipline, but they are not endowed funds. Simply put, if a board creates an "endowed fund" out of reserves, windfalls, unrestricted gifts or bequests, those funds remain *unrestricted net assets* and are best understood as a "quasi-endowment" or reserved funds. If a donor makes a gift for an endowment, it is a true endowment and thereby permanently restricted.

According to the Financial Accounting Standards Board (FASB), a true endowment or permanent endowment is created *only* when a donor has declared the gift is to be held permanently as an endowment for general or specific purposes. A true endowment must be restricted in a written agreement by the donor, or is secured via a response to a specific solicitation by the agency that promised to use the donation as an endowed gift. Only the donor can create an "endowed fund." FASB guidelines are clear that the portion of the endowment that must be maintained permanently (not spent, invaded, or exhausted) is classified as "permanently restricted net assets." In rare cases, a donor may create a "term endowment" that has a set period of years attached to it or is triggered by some event. In this case, the funds are "temporarily restricted net assets."

**Importance of planned gifts.** How does this relate to planned gifts? Planned gifts or planned giving is typically how most endowments have been—and will continue to be—built. The planned giving program is a vehicle or process that may result in the creation of endowed funds. However, many planned gifts will be unrestricted.

There are a variety of mechanisms by which a donor can make a planned gift. They range from cash, securities, bonds, real estate, tangible property, trust, retirement assets, and more complicated financial arrangements. My advice is if you're trying to get started, don't go here first. These financial mechanisms will only confuse and overwhelm you and your board.

There are plenty of experts in your community and in our network that can outline the possible vehicles. There are community foundations and other resources (maybe even the Alliance someday soon) that could partner with you to secure this type of gift. This area should be near the end of your list of priorities when it comes to beginning a planned gift or an endowment program.

**Establishing a program.** Because endowment building is about the relationship you have with your community and your donors, to determine where you and your board focus your efforts, first answer a few questions about your organization:

- Do we deserve to have an endowment? (Be honest with yourself.)
- Is your mission relevant to the community, and will it continue to be so in the future?
- If yes, does your organization warrant major or long-term investment?
- Would a reasonable donor expect you'll still be serving the community in 100 years?
- If yes, would a reasonable donor expect that you can and would manage an endowed fund well?
- And most importantly, do your donors even know that you want planned gifts and/or gifts for the creation or building of an endowment?

Another set of questions to discuss with your board deals with who exactly makes planned or endowed gifts and why. This is not rocket science, but an important deliberative exercise. It can be very eye opening and energizing.

Although all these questions are seemingly obvious, they are very important to answer. No matter what the answers, they will help you and your board members design a plan to move from where you are to where you want to be.

I would argue almost every one of us in the network could and should begin a serious planned gift/endowment program. Quite frankly, collectively, as a network, we could even help each other do it.

Who makes these large, generous donations? Bill Gates, Oprah Winfrey, George Soros, and the lady down the street who drives a 1987 Plymouth, has a house in need of paint, and has been donating $50 or so every time you asked for the past 5-10 years. I am not interested in getting in line for the Gates and Winfrey gifts because the line is too long and they don't know my agency. But, the lady who lives down the street? It is obvious that she cares about our mission and she has a relationship with us and our community.

Endowments and planned giving are about relationships and trust. If you start there and focus there you may be amazed about the possibilities that quickly unfold. In her highly-recommended book "Endowment Building," Diana Newman gives a number of reasons why donors make endowed gifts. The reasons are all important, but the one that got my attention was to perpetuate an annual gift. Have any of us talked directly with our donors about how they could make their *specific annual gift* in perpetuity? Some of us now have wonderful giving "circles" with names such as Second Century Circles, Keepsake Societies, Friends of the Family, etc. Did we build in a discussion about keeping those periodic gifts coming in perpetuity? I bet few of us have done so. As I'm writing this column, I am painfully aware that my agency has made efforts in these directions, but not nearly as directly, specifically, or as intentionally as we can, should, and certainly will. Many of the modest gifts we receive are from individuals that just may have the means to do so via a planned gift or bequest. They care about our work, trust us, value us, and believe in our mission. In other words, we have a relationship with them.

For example, let's say I'm a Keepsake Society donor at the $1,000 level. If I leave a planned gift of only $20,000 to create an endowed fund, I have made possible an annual gift of $1,000 in perpetuity (and its buying power is adjusted for inflation). If my gift is $500 a year, I only need to leave $10,000. If it's $100 a year, I only need to leave $2,000. This type of arrangement makes modest gifts to an endowment quite meaningful for the donor and the agency.

By the way, if you're afraid that after a planned gift you will not receive an annual gift, the reality is that it is the opposite. Most planned givers *increase* their annual giving while alive. This is because they have just made a major investment in your agency and your mission, they have a solid relationship with you, and they want you to succeed.

Most planned givers *increase* their annual giving while alive. This is because they have just made a major investment in your agency and your mission, they have a solid relationship with you, and they want you to succeed.

Some agencies may think they are too small to attract significant long-term gifts. Of course, this may pose a problem, just as an agency may have a problem answering the question of whether they will be around in 100 years. But I believe we can construct good and credible answers to those problems and questions. As a network of agencies in the Alliance, we might be able to achieve leverage to further address these issues and concerns, just as we may also be able to provide some of the sophisticated planned gift vehicles as a national collective, since some of us would be financially challenged to do it on our own. ▲

*Bob Jones is president and CEO of Children's Aid and Family Services, Inc., in Paramus, NJ. To find out more about Children's Aid and Family Services, visit their Web site at www.cafsnj.org. He is also a member of the Alliance Board of Directors*