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### **The handmaiden of planned giving programs**

Endowment funds are often referred to as the future lifeblood of any charity, and the handmaiden of a planned giving program. Providing for the long term financial success of the organization, they are also a buffer in times of financial and/or fundraising reversals. Properly structured, endowed funds will take care of emergencies and they will help assure the continuation of certain important programs that may be difficult to fund from an annual appeal.

Typically, an endowment fund is a receptacle for gifts given in perpetuity. The capital of the endowment remains untouched, and only the income from the fund is used for ongoing programs and services. Usually, the fund is made up of a pool of unrestricted dollars (i.e. general endowments), as well as a number of individually named funds restricted for certain purposes. It is important to note that endowment funds differ from reserve funds, where the principal and the income may be expended by the charity.

### **A gift that keeps on giving**

Endowment funds are very important for a charity as they supply a steady and dependable source of income. If promoted and managed properly, these funds have the potential of securing the financial future of many Canadian charities. Canadian universities are a good example. Their endowed programs are self-sustaining, well-rounded, and are not a drain on current financing. Without endowments, these programs would not be as full and complete as they are. An endowment gift keeps on giving, and will continue to provide financial support for years to come.

Important as a receptacle for donors' funds, endowments are also the means to fulfill the donors' wishes. Many donors, especially those making planned gifts, do not want their funds to be used for current needs. They often wish their gift to be preserved and used long after their passing, to create a lasting testimony, to assure support for their area of interest, and/or to make a statement of what is important to them. Often this can only be accomplished through an endowment fund.

Endowment funds are also useful as almost any type of gift can be placed into them. Types of gifts that can be used to create endowments include outright gifts of cash or property, bequests, residual interest of a charitable remainder trust, residual interest where the donor retains use of a principal residence or other property, death proceeds of life insurance, cash value of life insurance, the gift element of a gift annuity, proceeds received at maturity of a stripped bond, or even retirement funds designated for the charity.

### **Types of endowment funds**

#### *General Endowment Unallocated*

General Endowment Unallocated is a permanent fund set up by the charity to hold gifts in perpetuity. The capital is retained and only the income is used for the current work of the charity. This is the natural receptacle for memorial gifts, and often undesigned bequests are automatically directed to this fund. Gifts of any size can be placed in this fund.

#### *Specific Endowments Allocated*

This, too, is a permanent fund set up by the charity to hold gifts in perpetuity. The capital is retained and only the income is used for the current work of the charity. No minimum size of donation is required. Specific Endowments Allocated are established to fund permanent ongoing programs of the charity. For example, a hospital may set up such a fund to provide support for the neonatal unit. In this case, the fund may be called: The ABC Sample Hospital Foundation Neonatal Endowment Fund. This fund could be used to provide special equipment, blankets, or supplies that might not otherwise be available from the hospital's regular funding source(s).

#### *Named Donor Endowments*

Similar to the above, this is a permanent fund set up by the charity to hold a donor's gift(s) in perpetuity. The capital is retained and only the income is used for that particular program, as specified by the donor.

Named Donor Endowments are usually established only for some pre-set minimum amount. Until recently, \$10,000 was the most common minimum, however, many charities now require \$25,000 or \$50,000 to ensure enough annual revenue is available to fund programs and be administratively cost effective. For example, a donor may set up a fund to provide for needy children at a favourite community charity. In this case, the fund may be called The Sample Donor's Needy Children Endowment Fund. Each year at Christmas time the charity will have available for its use the income from the donor's fund to provide toys for needy children.

These funds are normally invested with the other endowments of the charity, but are separately tracked.

#### **How a gift for endowment is established**

##### *General Endowments Unallocated*

Before a charity begins an endowment program, it will need to seek board authorization to hold endowment funds, and it will need to establish terms of reference for the various types of endowed funds it wishes to establish. Usually, some reference is made to the fact that the capital will be retained and only the income will be expended on charitable purposes. Often mention is made of a provision for a reserve against inflation. Financial accounts and procedures will also need to be put into place. Once established, the donor makes a gift to the general endowment fund and directs the charity to receive it under the 10 Year Rule. Usually, the charity has printed a 10-year direction on its solicitation and informational materials. The charity receipts the gift, and attaches the donor's direction to the duplicate receipt.

The charity invests the capital and uses the income produced according to the terms established for the general endowments funds. Typically, a yearly report is provided by the charity to the donors on the use of the funds.

##### *Specific Endowments Allocated*

###### *Named Donor Endowments*

The procedure is also similar to the other endowments. The donor makes a gift to charity and directs that the charity receive it under the 10 Year Rule, however, the donor instructs the charity to establish a separately identified, named endowment fund. Donors usually want to name the fund after themselves, or to memorialize a loved one, and often wish to specify the program or area to be funded by their named fund.

The charity should review these requests to make certain that the funds can actually be used for the purposes requested by the donor. If the gift is not acceptable, all is not lost. You may need to negotiate with the donor, and to establish terms that meet both the donor's needs as well your charity's. When the terms are acceptable to both parties, the charity drafts terms of reference for the new fund, and both the donor and the charity sign the agreement.

The donor's funds are placed in the investments of the charity, but reported separately. Each year, the earnings of the fund are used for the purposes specified by the donor, and each year the charity reports to the donors on the use of the funds. If the purpose of the fund is for use as a scholarship, the charity may ask the students receiving the award to write a letter to the donor. Similarly, if the funds are to be used for research, the charity may ask the researcher to write an appropriate letter.

#### **Distinguishing features of a gift for endowment**

- Donor has established an irrevocable gift that will provide the charity with a steady income stream beyond their lifetime.
- Donor receives an immediate tax receipt for the amount of the gift.
- Charity has received a gift of capital, which it will protect and place in its investment portfolio.
- The gift will provide an ongoing income stream in perpetuity to be used as directed by the donor.