Understanding Endowments

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Fundraising and Financial Terms

What is Planned Giving?

Charitable contributions that involve an aspect of estate planning, with gifts to be given or finalized after a person's death. Sometimes the contributions will begin prior to the person's death if there is a plan for a special fund or project.

People who would like to have an impact beyond their lifetimes, forever as far as current systems exist, usually consider creating endowments or contributing to an endowment at an organization they love, or endowed funds with a designation at community foundations.

Differences

- An endowment is not the same as something an organization might call “reserve funds” or “board restricted.”
- Reserve funds and board restricted funds can have their purposes changed.
- Endowments are set up for specific purposes and cannot usually be altered.

Exceptions are regulated….

Regulations

The Uniform Prudent Management of Institutional Funds Act (abbreviated **UPMIFA**) is a uniform act that provides guidance on investment decisions and endowment expenditures for nonprofit and charitable organizations. **UPMIFA** is currently the law in 49 states, the District of Columbia and the U.S. Virgin Islands.

Neither Pennsylvania nor Puerto Rico has adopted UPMIFA.

How can you change the restriction on a gift?

According to UPMIFA:

- With donor consent, and the consent must be recorded
- By court order
- If a small fund is less than $25,000 and older than 20 years, then after 60 days with notice to the attorney general, if the institution uses the asset in a manner consistent with the charitable purposes described.(In NY and CA, up to $100,000 and OH, up to $250,000; state differences in notification to donors exists)

Different Types of Endowments at Organizations

- **Unrestricted**: can be spent, saved, invested, distributed all at the discretion of the organization receiving the gift.
- **Term**: usually state a period of time or after a certain event that the principal can be used.
- **Quasi-endowment**: sometimes simply being "board designated," is a fund that functions like an endowment, but without any legal restriction to hold the fund permanently. The principal is usually spent at some point.
- **Restricted endowments**: have their principal—original gift--held forever, while the earnings (interest, dividends) from the invested funds are spent as the donor designated.

Endowed Funds

Community Foundations: Act as an umbrella for many funds

- Endowed funds at a community foundation can allow for specific intention and for a specific organization.
- Intention of gifts continues in perpetuity and redirects if the original intention or the organization designated changes or ceases to exist.
- Donors who choose this option generally understand that circumstances change and not every organization lasts forever; they choose a way that someone has another level of control over the way their gifts are used.

Endowments

- Value will depend on how the funds are invested and managed through the years.
- Usually there are restrictions on how much of the earnings on the principal are allowed to used and if a percentage must go back into principal.
- If the endowment is not managed well, income earnings allowable for use may decrease.
- Like retirement funds, sometimes an organization can borrow from the principal and pay back over time.

Why Endow?

Donors who make restricted endowment gifts do so because they want the organization to have a source of money it can count on forever. This is achieved by keeping the original gift, the principal, untouched.

Example of Scope

- The oldest endowments on record, still active today, were established by King Henry VIII and his relatives, with his grandmother establishing endowed chairs (money to fund professorships forever) in divinity at Oxford and Cambridge universities and the King establishing chairs in different subjects also at both universities.
- The first recorded endowment was for a school of philosophy in Athens, established by Marcus Aurelius in 176 AD.

Schneider Memorial Fund

- Planned gift
- Created via a trust in 1975 with NSAC as beneficiary and as the trustee, the manager of the trust. NSAC was then in Cassadaga, FL.
- Allows for payment of costs related to teaching of Spiritualism (for example, instructional materials, Spotlight, paying qualified teachers, the College of Spiritual Science when it existed). Formal purpose: to endow education in the teaching of the Science, Philosophy and Religion of Spiritualism and to memorialize the family name of Adam A. Schneider and Emma Schneider, the parents of the donor.

Schneider Memorial Fund

- Purpose, continued: “All appropriate means of bringing the True Teaching of PURE SPIRITUALISM , to the attention of the public and to sponsor the training of individuals endowed with qualities and aptitude to further such teaching.” The goal was to prevent the money to be used for things that might “dilute” the teachings of Spiritualism.
- Conditions: original gift (200 shares of stock) to be held as principal and the income to be used for the purpose outlined. When growth occurs, not less than 60% of the income will be kept as principal. Must be held in a separate account called the Schneider Memorial Fund with “essential expenses provided but no emoluments” [salaries or other fees considered compensation for work].

Schneider Memorial Fund

Examples of purpose given in trust document:

- "Securing permanent publication of the major periodicals
- All or part of the expenses of qualified speakers to the churches or public appearances on appropriate occasions.
- Improvements to a future National Headquarters, such as a library, etc.
- Help worthy students in the form of a scholarship or partial scholarship to Morris Pratt classes, etc.
- Other causes seen worthy in the wisdom of the Trustees"

The Trustees may decide when the need for cash is greater than a goal of conservation (keeping principal intact).

NSAC General Endowment

- Board restricted
- Added to in 1997 by the sale of a property in San Rafel. After existing expenses paid, amount remaining was about $300,000
- Conditions: principal not to be used; 60% of the income remain untouched and 40% to be withdrawn and used by NSAC for general use.
- Note: condition was created by the Board and so can be changed.

Stow Memorial Foundation

- “Organized in anticipation of the financial support of its activities and functions by the NSAC with an endowment of $300,000”
- To “serve and function solely and exclusively as the Bureau of Public Relations of the NSAC in the City of Summit NJ.”
- “This Foundation shall at all times limit is expenditures and disbursements and its commitments therefor to the earned income of said funds and shall preserve the principal without reduction.” …earned income not spent shall be held in a fund for future use.

Example of Some NSAC Funds Created and Board Restricted Endowments

- Science Fund
- Fox Cottage Endowment Fund
- Library/Archives Preservation Fund
- Spiritualist Benevolent Society (originally a separate entity)

Through the Years

- As boards and membership changes, it is very common that endowments come up for discussion when an organization is in financial difficulty.
- If those involved don't understand the history, it might seem very strange that the principal of the endowment can't be touched when there is a crisis or a need.
- It's important to remember the organization has a legal and ethical obligation to follow the donor intention.
- It's also important to understand that endowments are a specific financial strategy.

Through the Years

- Boards typically review original documents that created endowments, on a regular basis, to ensure understanding of correct use. NSAC follows this practice.
- Best practices would include this type of information in a new Board member orientation.
- Best practices also include for membership organizations, that the members are reminded of purposes and restrictions with every financial report shared.
- The most stable and most financially healthy organizations have diversity in revenue. Endowments provide continuity and stability particularly in challenging financial times.

Questions?