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Managing Endowments

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You have an endowed fund now what?

A competent development officer must realize managing endowments begins with donor solicitation and extends for the lifetime of fund. When establishing an endowment it is imperative the charity and donor agree to a governing endowment protocol, representing the basis agreement between the charity and the donor.

Endowment protocols should stipulate well conceived charitable policies and reflect the interest of the donor in supporting long term a project or program.

Basic elements of a protocol which should be signed by both the donor(s) and the charity are as follows. First, official name of the fund which will be reflected on the permanent books of the charity and used in all listings and publicity.

Second, funding amount which may list the initial gift, the payment plan to reach a minimum fund value, stipulations about a lack of funding, and if the funding amount will include earning on investments until the fund reaches a set historic dollar value.

Third, how the charity will invest the funds, who is responsible for the investments, and if the fund will be co-mingled with other charitable assets.

Fourth, will additional gift to the funds be accepted, who will be responsible for fund additions, and will additions be allowed.

Fifth, the purpose of the fund must be set forth in sufficient detail so there will be no misunderstandings about the use of funds. The person responsible for fund expenditures should be listed by name, position and/or title.

Sixth, what is the spendable amount from the fund and how will it be determine, by income generated, by a set percentage of the fair market value and/or by the funds earning. What time period will be used as the measuring criteria? Will funds not used in one year be reinvested or held for a future expenditure?

Seventh., other considerations must be covered. These may involved a change in the

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original purpose, program or project by the charity. What will happen if the fund does not reach the minimum required funding amount within a stated time period? Who will have the authority to make the changes?

Eight, the endowment protocol should be accompanied by a schedule of anticipated contributions similar to a pledge payment schedule.

Investment management will vary by charity size but the development officer must realize the nature of endowment funds require they be invested for the long term growth of both principal and income. Educated donors and/or their advisor may require a review of the current investment policy, a historical return summary, the rate of return objectives, the strategic and tactical asset allocation guidelines for investment advisors, prohibited investment techniques, and social responsibility investment guidelines.

Endowed funds for very large organizations are managed and invested internally while medium sized charities often manage the funds internally but invest externally. Lastly, smaller charities should decide if they wish the burden of managing endowed funds or if the funds could more appropriately be managed on their behalf by a community foundation.