



CREATIVE
FUNDRAISING ADVISORS

A GUIDE TO ENDOWMENTS

DEFINING ENDOWMENTS

ENDOWMENT

An endowment is a permanently restricted net asset, the principal of which is protected. The interest income from the endowment may be spent and is controlled by either the donor's restrictions or the organization's governing board.

ENDOWED FUND

An endowed fund is a fund established by one or more donors in perpetuity in which the principal is invested, and a small percentage of the fund's interest is paid out, generally on an annual basis.

An endowment may be comprised of one or more endowed funds.

RESERVE FUND

A reserve fund is comprised of money held in a liquid asset, such as a savings account, through which cash can be accessed when funds are needed to cover unexpected costs or emergencies.

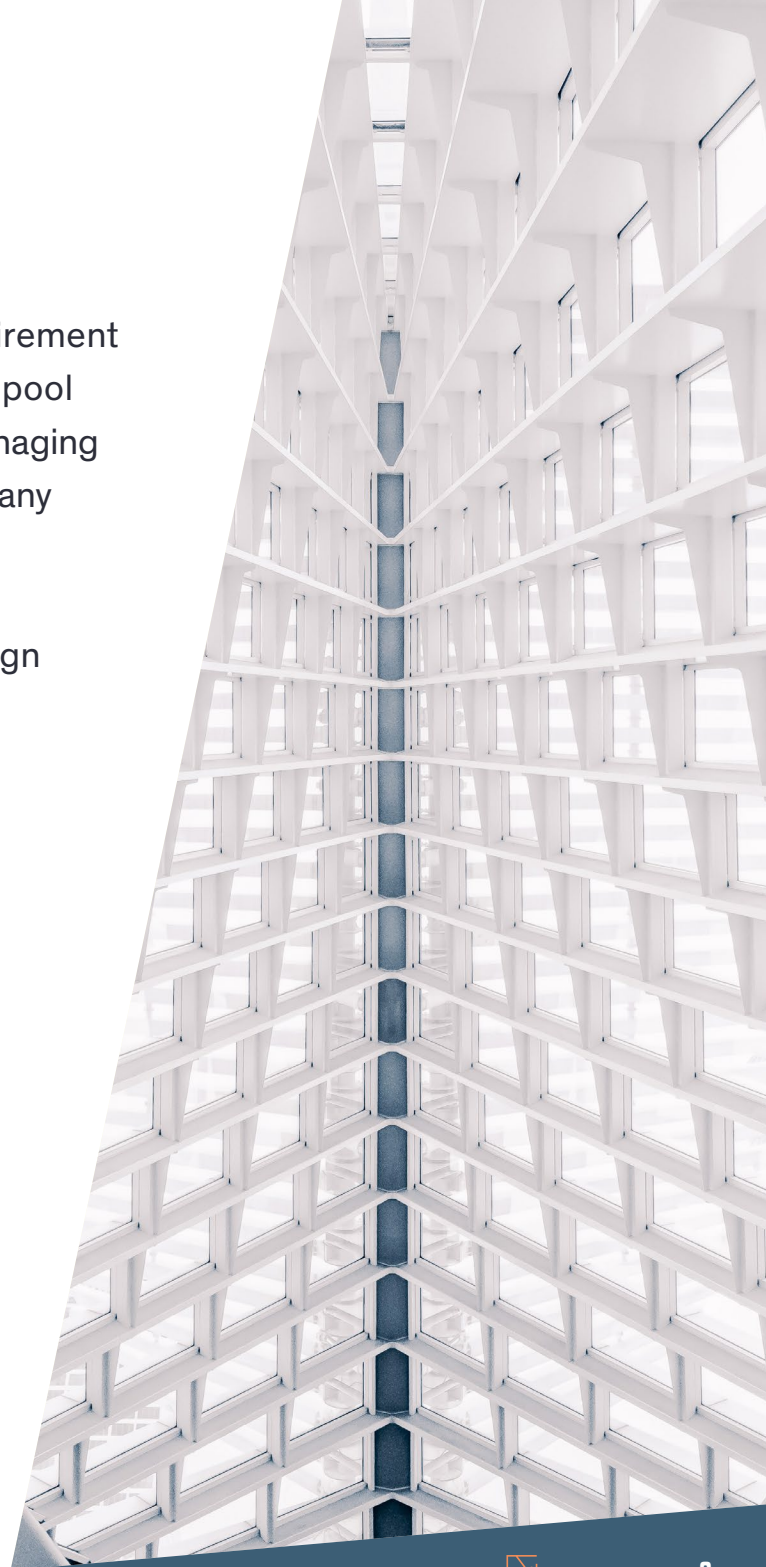
A reserve fund is separate from the operating budget and has more flexibility than an endowment fund.



ENDOWMENT SOURCES

Funding sources of endowments can include gifts of cash, stock, securities, retirement assets, and more. While an endowment needs to start with an initial minimum pool of funds according to the requirements/terms negotiated by the Board and managing entity (bank, community foundation), once the endowment is established, gifts of any size can be accepted to support the endowment.

Planned gifts can also play an important role in funding endowments, as they align well with establishing legacy. Planned giving represents a significant funding opportunity for nonprofits: According to Giving USA, gifts from estate bequests made up nearly 9% of total giving in 2022, which has held steady since 2020.



ENDOWMENT USES

The uses, terms, and withdrawal rate of an endowment are governed by the policy dictated by the Board when the endowment is established.* Unlike a cash reserve, an endowment is not treated as a liquid asset or a “rainy day fund.” A nonprofit may anticipate receiving a certain range of income from the endowment each year, usually dictated by rolling average of the stock market. In addition to being against endowment policy, depleting the principal beyond the established terms is not a best practice because it depletes the future interest the endowment could earn.

If a nonprofit chooses to house an endowment at a bank or community foundation, such entities usually charge fees for managing and reporting on the investments. Board leadership, such as an investment committee, should conduct due diligence to compare brokerage options by evaluating management fees against maximum anticipated growth rates. Smaller-sized nonprofits may consider utilizing a community foundation, which can require a lower minimum of initial investment to manage the endowment and can offer an easy online portal for donors to directly contribute.

**When establishing an endowment, nonprofit boards should utilize legal counsel to review the endowment terms and policy, as this language can have permanent ramifications for future use of funds.*



ENDOWMENT CAMPAIGNS

An endowment campaign is a fundraising campaign that raises money specifically for a nonprofit's endowment. Similar to a [capital campaign](#), it is a concentrated, organized effort executed within a specific time period. An endowment campaign can yield several benefits for an organization, including:

- Inspiring donors to “think big”
- Encouraging [volunteer engagement](#)
- Stimulating moves to higher levels of [annual giving](#)
- Enabling donors to pledge multi-year gifts, which can lead to greater total giving
- Increasing [visibility](#) among stakeholders and the community

Because an endowment-only campaign can be a long-term effort, CFA often suggests including an endowment campaign with a more tangible initiative, such as a capital campaign or capacity-building campaign. An endowment component may also be added to a capital campaign to help sustain a new building's maintenance and operations.

THE CASE FOR ENDOWMENTS

Once an endowment has been established, the annual payout may comprise a portion of an organization's operating budget, which can allow an organization to plan thoughtfully and expand capacity.

An endowment can also supplement the work of a development team in reaching annual fundraising goals. A reliable endowment can allow development staff more freedom and time to perform their jobs thoroughly, providing bandwidth to uncover what is most meaningful to donors and to plan the ask for transformational gifts.

Some nonprofits may delay establishing an endowment because of the perception that an endowment is not as urgent as other organizational needs. While the impact of an endowment may not be immediately seen, as interest on invested funds takes time to accrue, an endowment is meant to ensure the perpetuity of an organization. Giving to an endowment can be one of the most powerful, meaningful actions a donor can make.

An endowment presents an opportunity to take fundraising to new heights. Endowments can set organizations free to embrace transformative visions.



Considering an endowment campaign?

Contact CFA to get started on your fundraising plans.

CONTACT US