

# Exploring Endowments

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**CREATIVE**  
FUNDRAISING ADVISORS

# What is an endowment?

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

# What is an endowed fund?

An **endowed fund** is a gift 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.*

# What is a reserve fund?

A **reserve fund** comprises 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.*

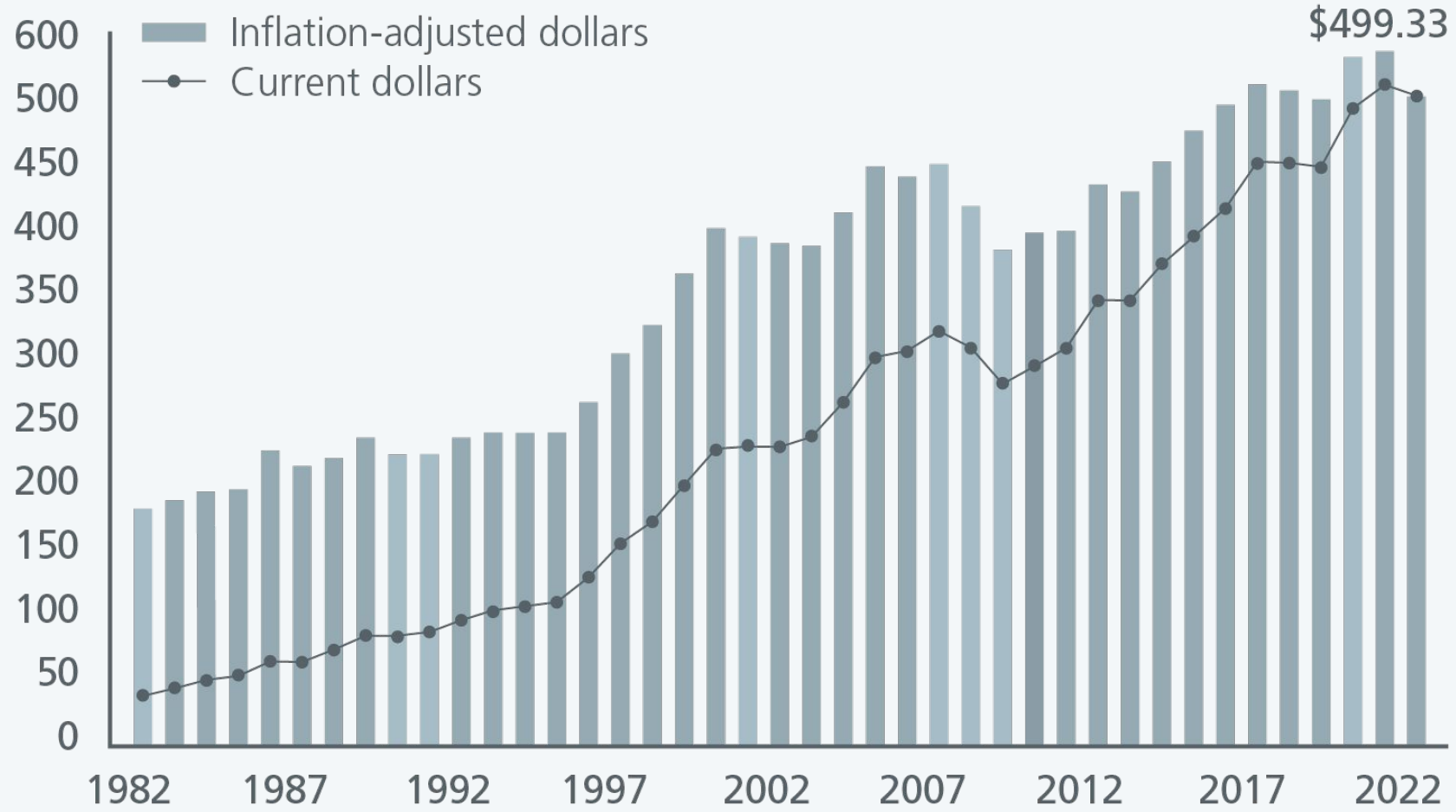
# Why start an endowment?

Endowments can support:

- Thoughtful strategy
- Increased capacity
- Transformative vision
- Long-term sustainability

# Total Giving (1982-2022)

(in billions of dollars)



# Endowment Myths

# Myth #1

## ~~An endowment can be used for a “rainy day”~~



The endowment uses, terms, and withdrawal rate are governed by the policy dictated by the Board when the endowment was established. While a nonprofit may anticipate receiving a certain range of income from the endowment each year (usually dictated by rolling average of the stock market), depleting the principal beyond the established terms is not a best practice because it depletes the future interest the endowment could earn.



# Myth #2

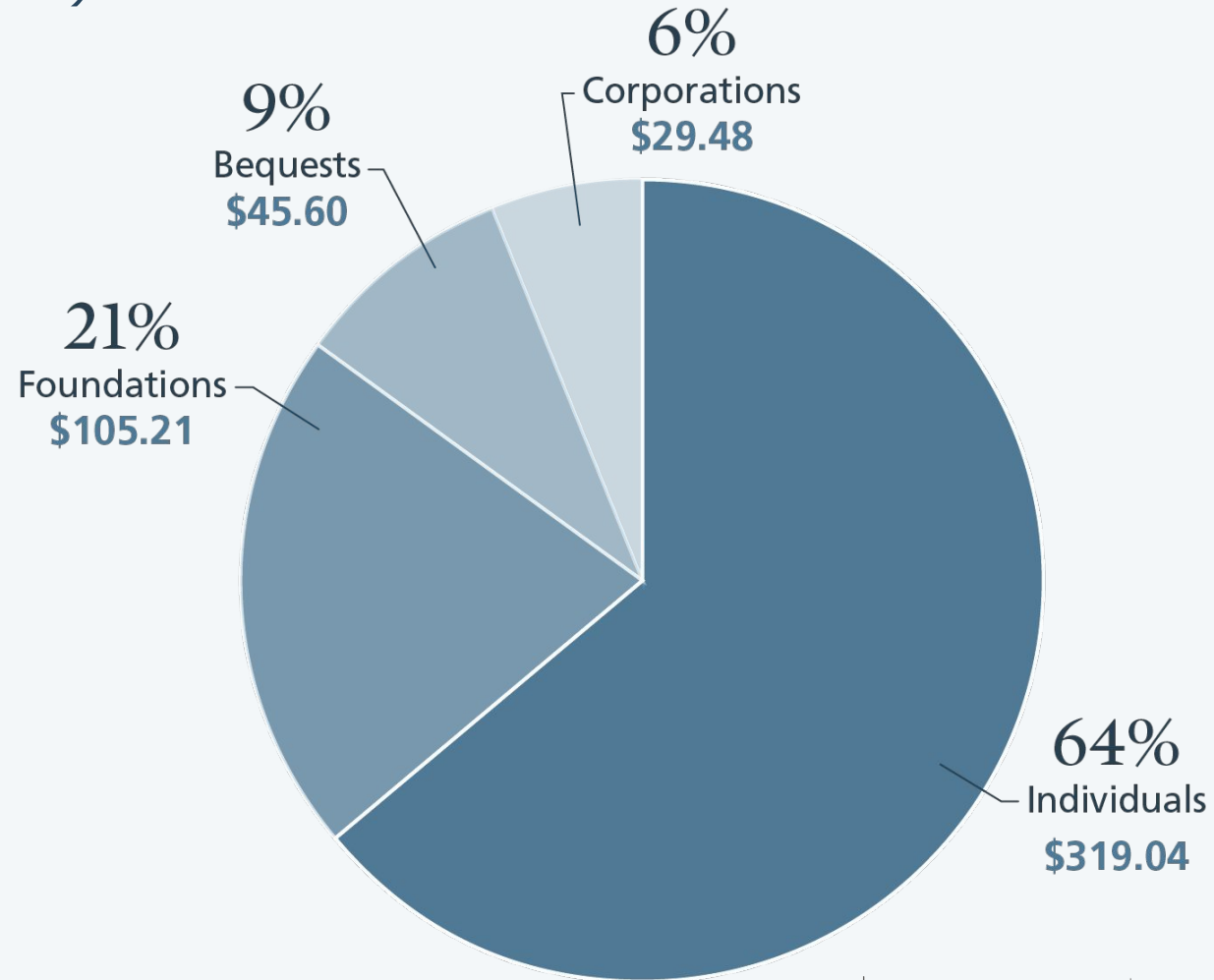
## ~~Endowments only come from planned giving~~



While planned giving can play an important role in endowments, other funding sources can be gifts of cash, stock, securities, retirement assets, and more.

# 2022 Contributions by Source

(in billions of dollars)



# Myth #3

~~You have to make a major gift to support an endowment~~



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.

# Alternative Investment Options

- Working Capital/Board-Designated Fund
- Real Estate
- Venture Capital Fund
- Advance Fund

# Myth #4

~~Organizations with endowments don't have to fundraise~~



Nonprofits cannot rely solely on endowments.

# According to the IRS, a publicly supported charity must meet one of two tests:

- The organization receives **no more than one-third of its support from gross investment income** and more than one-third of its support from contributions, membership fees, and gross receipts from activities related to its exempt functions.
- The organization receives a substantial part of its support in the form of contributions from publicly supported organizations, governmental units, and/or the public.



# Q&A