The steps outlined in this handout will help your organization create an endowment that will help sustain your organization in the future.
Charitable Organizations and The Arkansas Community Foundation, Inc.

Introduction

As a fellow nonprofit, the Arkansas Community Foundation is keenly aware of the funding challenges facing our state’s charitable organizations. In meeting its mission to expand the philanthropic resources of Arkansas, the Arkansas Community Foundation can assist nonprofits in two significant ways. First, in its role as grantmaker, the Community Foundation has distributed millions of dollars to nonprofits. Second, the Community Foundation assists the nonprofit sector through careful stewardship of endowments for charitable agencies. If you are a staff member, board member, volunteer, or advisor of a nonprofit organization, you may find that placing an endowment with the Arkansas Community Foundation is a more cost effective and practical way to manage and build your endowment than managing it yourself.

What is an “endowment”? 

The Arkansas Community Foundation uses the strict definition of endowment: a permanent fund, the principal of which is never touched, but the earnings from which can be used by the charitable organization. It should not be confused with a capital fund, a reserve fund, or a special project fund, all of which generally allow expenditure of principal.

Why would a nonprofit organization want to create an endowment fund?

• An endowment fund is a permanent, steady, and secure source of income.

• Endowments are an attractive option to donors, particularly those who wish to make large gifts or leave a gift by bequest, since their donation is maintained in perpetuity and not expended for short term operating costs.

• An endowment fund tells the community that your organization is building for the future and intends to serve the community for many years to come.

• Even a small endowment is a seed to which your organization and its supporters can add.

Agency endowment services of the Arkansas Community Foundation

1. Investment Management

• Effective professional management: Arkansas Community Foundation’s endowments are managed by professional investment managers chosen by its Finance Committee for their expertise in managing charitable endowments. The Finance Committee represents a significant pool of experience and expertise in investment management. Oversight of endowments in the Foundation is their primary responsibility. Because the funds are pooled for investment purposes, agency endowments in the Community Foundation obtain lower fees, greater protection against market fluctuation, greater diversity of investments, and more efficient investment than endowments that are invested separately.
• Monitoring investment managers: The Finance Committee and independent consultants regularly review the performance of the managers and holds a review conference with them annually. In addition, the Community Foundation’s Director of Finance maintains frequent contact with the managers. The Foundation’s oversight frees your agency’s board and staff to concentrate on the agency’s mission and program.

2. Administration

• Accounting: The Arkansas Community Foundation handles all accounting on the endowment including interest and dividend income, contributions, distributions, and realized and unrealized capital gains. Your agency receives a quarterly statement on the fund.

• Tax filing, auditing, and insurance: The endowment is fully covered by the Community Foundation’s non-profit status and IRS tax exemption, eliminating the need for any start-up legal work or annual tax filing. In addition, the endowment is audited as part of the Arkansas Community Foundation’s annual independent audit.

3. Building the Endowment

• Publicity: The fund is listed in the Arkansas Community Foundation’s annual report and other publications, building a greater awareness of the endowment and a positive image for it. The annual report goes to thousands of individuals and corporations, most of whom are already philanthropists.

• Handling sophisticated gifts: The Arkansas Community Foundation is able to handle gifts of publicly traded and closely held securities, real estate, life insurance, and other types of gifts, and can provide the expertise needed to receive these types of gifts into your agency endowment.

• Technical assistance: ACF understands the use of remainder trusts, lead trusts, gifts by bequest, and other endowment-building techniques. Although the involvement of ACF does not substitute for your own development efforts, we can provide the technical assistance to encourage planned gifts to build your endowment.

4. Fees

The Arkansas Community Foundation’s annual fee for endowments created by and for charitable agencies is only ½% of the fund balance; for example, $500 on a fund of $100,000, The minimum annual fee is $50.

The Arkansas Community Foundation manages numerous nonprofit funds of various sizes. We would welcome the opportunity to work with your agency in the careful stewardship of its endowment.
Endowment Program for Nonprofits

Why have an organizational endowment?


2. The value of an endowment to your organization:
   - Organization is assured of funds for its future
   - Endowment assets help ensure that services are always available to meet needs
   - Endowment assets provide additional income for new ventures
   - Demonstrates organization’s stability and permanence
   - Provides management with greater flexibility

3. The value of an endowment to your supporters:
   - Immortality – it extends a donor’s life and values for future generations
   - Allows donor to perpetuate the annual gift
   - Donor can make a larger gift out of assets than out of income
   - Gifts that pay life income (like gift annuities) help the donor with family obligations.
   - Donor enjoys tax savings that increase giving capacity
Arkansas Community Foundation, Inc.  
*Your Philanthropy Resource.*  
*For Good. For Ever.*

The Arkansas Community Foundation assists nonprofits in building and administering endowment funds.

**Advantages of Establishing an Organizational Endowment Fund with ACF:**

1. **Increased visibility**  
   - ACF staff members are in contact with potential donors.  
   - ACF can help with press releases on new endowment funds or subsequent additions to the fund.  
   - ACF will add your organization to its marketing material (Annual Report, Website, other).  
   - ACF staff maintains a strong working relationship with professional advisors.

2. **A partner in planned giving**  
   - ACF can handle complex or deferred gifts for your organization (i.e., gift annuities or real estate).

3. **Saves legal/accounting fees**  
   - ACF assumes responsibility for working with professional counsel to draft trust instruments. No fee is charged to establish a fund.

4. **Saves staff/in-house time and budget**  
   - Relieves staff from expense and burden of researching and administering the many complexities of planned giving.

5. **Relieves agency of fiduciary responsibility**  
   - The nonprofit board is freed to focus on fundraising rather than investing and managing permanent funds.

6. **Investment mix**  
   - Because Foundation funds are pooled for investment purposes, nonprofits receive a higher rate of return than might be possible when smaller, independent endowment funds are invested separately.

7. **Today’s efforts are protected**  
   - Too often, the hard work and intentions of endowment builders are set aside by leadership faced with cash flow difficulties. ACF will follow your endowment guidelines and guard against “quick fix” solutions.
Organizational Endowment are established by action of the nonprofit’s board of directors or for the nonprofit by a donor.

What are the basics?

- Establish a fund with a minimum gift of $10,000
- Nonprofit or donors may add to the fund anytime
- Annual grants equal approximately 5% of the Fund’s annual net asset value
- Additional growth remains in the fund to increase its value and offset the affects of inflation
- Nonprofit receives quarterly fund statements
- Administrative ½% fee of the market value annually
1) CREATE AN ENDOWMENT DEVELOPMENT COMMITTEE OF YOUR BOARD TO LEAD THE EFFORT

Have the committee educate your board and staff about endowments, the ways in which funds are raised for endowments, where the funds can be invested, and what kinds of returns you can expect.

Have representatives of nonprofit organizations that have already successfully established endowments share their experiences with your board. National charitable organizations and nonprofit service groups such as the Arkansas Community Foundation (ACF) offer estate planning and endowment development training sessions to help your organization in this effort.

2) ADOPT A POLICY WHICH MIGHT READ:

“The (name of organization) hereby establishes a permanent endowment to guarantee, forever, an independent base of financial stability for (brief mission statement). The principal of the endowment will not be expended. Interest, dividend income or capital gains growth may be reinvested in the principal of the endowment and/or used to meet specific financial obligations.”

3) APPROVE A REALISTIC GOAL OR GOALS FOR ENDOWMENT DEVELOPMENT

One rule of thumb would be to work toward an endowment goal that would produce 25% of your operating budget (at a reasonable annual return) projected five years into the future. Be sure the endowment goal is at such a level that it can be a magnet for large gifts. Your goals should distinguish between a general operating endowment and those created for special purposes:

“The (name of organization) Board of Directors has approved an endowment goal of ($amount) to be reached by (the year). A ($ endowment) is expected to provide an amount equal to a minimum of $___% of the annual operating budget of (name organization).”
4) ADOPT AN ENDOWMENT GROWTH POLICY THAT WILL ENSURE MEASURED GROWTH

For example:

A. 25% of all undesignated gifts over ($) will be allocated to the endowment fund.
B. All undesignated memorials, gifts, and tributes will be allocated to the endowment.
C. (x) percent of the annual operating budget will be placed in the endowment.

5) ESTABLISH A COMMITTEE OF PROFESSIONAL ADVISORS

Identify professional advisors (such as tax accountants, trust attorneys, insurance agents, planned giving officers, CPA’s, etc.) to help the endowment development committee design your campaign and help as needed.

6) SELECT THE HOLDERS OF YOUR ENDOWMENT FUND

In making your investment decision you will need to address the issues of permanence and the investment of the fund.

Your organization can easily use the Arkansas Community Foundation (ACF) to permanently hold and professionally manage the endowment, freeing you to concentrate on fund-raising and your organization’s mission.

An organizational endowment can be created with a $10,000 minimum balance or a plan to grow the fund to $10,000 within three years. Of course, ACF encourages you to reach your $10,000 as quickly as possible by soliciting larger contributions so that your endowment can grow and produce income for the organization. In order to aid growth, you may request that ACF reinvest your income so that you reach your goal even faster.

ACF charges ½% of the principal balance annually (minimum $50 per year). This covers the cost of professional management and all administrative and tax reporting work.

In addition, ACF can provide a limited amount of technical assistance for your development efforts, but always recommends that you talk to your own tax and legal advisors about specific situations, and that you caution your prospective donors to do the same.

NOTE: One way to allay concerns that your board may have about establishing a permanent endowment is to consider setting up a non-permanent
cash reserve. In doing this, be sure that your month-to-month cash flow retains some degree of buffer to accommodate variations in revenue. Your cash reserve funds could be used:

- to meet emergencies or unforeseen expenses,
- as “bridge financing” for grant funds that have been approved, but not received, and
- as loans to the organization when payback is assured.

7) CREATE AN ENDOWMENT FUNDRAISING PLAN

Create an endowment fund-raising plan and budget, and integrate it into your overall fund-raising strategy. Think about how you can encourage long-term steady givers not only to increase their annual gifts, but to consider an endowment gift as well. Part of this effort will involve discussions with potential contributors. Perhaps you can identify a lead gift or one that can be used to challenge organizational or community members. Continue to educate yourselves about endowment fundraising.

To help get those critical initial gifts, get the endorsement and financial support of those closest to the organization such as current and past board members and staff, founders, long-term donors and volunteers closely associated with the organization.

8) CREATE A MARKETING STRATEGY

Determine the marketing strategy, the person-power needed, and the materials which must be developed. At the minimum, create a succinct, promotional brochure touting your organization, its endowment, and ways in which a donor can give and be recognized (if recognition is desirable). This might provide just the right opportunity to freshen up your image.

Your organization may want to acquire commercially available materials that can be imprinted with your logo, and address specific topics such as will and bequests, year-end-giving, life insurance and donations of real estate.

Be sure to keep the endowment development effort before your members and donors in your newsletters and other published materials. From time to time you may want to sponsor a fund-raising event just to help raise funds for and draw attention to the endowment.

9) IDENTIFY AND SOLICIT MAJOR GIFTS

Actively involve board members in identifying and meeting with major potential donors to discuss making a gift to the endowment. Respond by letter and phone
to other inquiries and personally meet with those prospects that seem the most promising. Be sure to thank all donors.

10) SET THE NEXT FUND-RAISING GOAL

Now that you have reached your first goal, how much should you raise for the second stage of the campaign and when should it be raised?

A good goal to strive for is one-quarter to one-half of your annual operating expenses. During the campaign, these funds can initially be invested in a money market fund before transferring to your endowment fund.