

How to Create and Maintain an Endowment Fund

Description

What Is an Endowment?

An endowment is a pool of money, invested to create a reliable stream of annual income.

A fund held by a charitable institution that, under the terms of a gift instrument, is not wholly expendable by the institution on a current basis.

The creation of the fund may be directed by a donor or by the board of directors in the absence of a restriction.

Policies should be set and reviewed annually to govern investment, spending, and use.

Why do Organizations Start Endowments?

To responsibly diversify charitable assets of the organization.

To comply with donor restrictions set forth in gift instruments.

To build a source of funds to support the organization in perpetuity.

To take advantage of long-term growth of investment strategies.

To attract donors.

Types of Endowments:

Endowed funds set by donor restriction. Example: A donor leaves a gift to the church with the instruction to create an endowment fund to support the maintenance of the church in perpetuity.

Investment fund created by unrestricted charitable gifts, in the discretion of the board, also known as a quasi-endowment fund.

Laws Governing Management of Endowment Funds:

Uniform Prudent Management of Institutional Funds Act – governs how much of the fund you can invade, requirements to set spending policies, and process to amend use of the assets.

The Attorney General's Offices in Massachusetts and Rhode Island oversee compliance with this Act and use of charitable assets.

Policies All Organizations Should Have in Place:

- Gift Acceptance Policy: Governs types of assets the organization will receive, strategic fundraising initiatives for the organization, minimum amounts to start restricted funds.
- Endowment Spending Policies: Governs the process to invade principal and use of the endowment fund.

- **Governing Fund Documents:** Summary documents governing the intent of use for fund established by the organization.
- **Bequest Management Policies:** Assists the organization to properly manage and respond to gifts received through an estate plan.
- **Gift Agreements:** Assist with documenting donor intention when making gifts to the organization.
- **Review of Bylaws:** Upon creation of endowment, it is best to review who has authority and responsibility in governing documents to oversee the fund.

Partridge Snow & Hahn's [Charitable & Nonprofit Organizations Blog](#) provides practical legal guidance for charitable and nonprofit organizations. If you are interested in receiving these updates via email, please submit the form below:

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