

## Endowment Basics

- Endowments establish funds that provides a permanent source of financial support
- Endowment principal of the fund is never spent; the investment income from the principal is used annually to support library services

### What is an endowment?

An endowment is a fund created to provide a permanent source of support to be used for charitable purposes. The principal or value of the fund is never spent. Earnings of the fund are interest, dividends and market gains and/or losses. Direct proceeds to the organization are a portion of the total annual earnings of the fund. An endowment is not a reserve or “rainy day” account.

An endowment can be a stabilizing force in your library’s future, helping the organization to weather economic downturns.

There are three principal categories of endowments. The Public Library Endowment Challenge Program is a “True Endowment”. Here is a brief summary of the three types of endowments:

- True endowments are funds received from external donors with the restriction that the principal (gift amount) is to be retained in perpetuity and cannot be spent. The donor signs the governing document (e.g. pledge card, Declaration of Intention); true endowments are controlled by donor stipulation.
- Term endowments are like true endowments, except that all or part of the principal may be used after a stated period of time or on the occurrence of a certain event.
- Quasi-endowment (funds functioning as endowment) are funds the foundation, rather than a donor or other external agency, has determined to treat as permanent capital although there is no legal obligation to do so. Quasi-endowments are submitted to the Foundation Board for acceptance. The governing document (generally a Statement of Quasi-Endowment) is signed by a foundation board member and controlled by the foundation.

### Why do people give to an endowment?

The donor was **asked** for the right project by the right person at the right time using the right technique and approach for the prospect.

### What is a Gift Policy? What kind of gifts can be accepted? –

An endowment gift for the Public Library Endowment Challenge means an irrevocable gift or transfer to a Wyoming public library foundation of cash, real estate, securities and other property acceptable to the library foundation as specified in a Gift Policy, where the gift of the foundation’s interest in the property

is required to be used exclusively for endowment purposes. [W.S. 18-7-202 (a)(ii)]

Your foundation should have a Gift Policy describing those gifts that you will accept. This document is used most often used to decline gifts. For example, would your foundation accept a donated boat with a hole in the hull? An old car?

Donor intent must be the principle motivation for making a gift. The best interests of the donor should be placed before the interests of all other parties involved in the gift process. Donors should be encouraged to consult their professional advisers regarding tax advantages and personal financial decisions.

### **What are Investment Policies and Spending Policies?**

A library foundation currently holding endowment funds, or one that is planning to raise endowment funds for the first time, should give special attention to how the funds will be managed --- not from an investment perspective, but rather how an organization will use the endowment income and principal in its operations.

Endowment management should be instituted with the consensus of the library foundation's officials and advisors. It should be cited in an organization's bylaws, as well as entered and defined in its policies. It's that important because it represents an organization's future.

Investment Policy – The foundation should establish an Investment Policy to establish criteria and benchmarks for the performance of its held funds. This policy identifies the level of risk and desired return on investments and is usually provided to the foundation's fund manager(s) to follow when investing funds. Portfolio managers should follow written guidelines agreed to by the foundation's Finance Committee. Foundations typically do not engage in high-risk or speculative investments activities with their endowment funds. The Foundation's portfolio is usually diversified so as to keep volatility within acceptable limits for the portfolio as a whole.

Spending Policy – The foundation establishes a Spending Policy to determine how much of the total return will be periodically allocated for distribution to the library and how much will be reinvested in the endowment investment pool. Spendable dollars remain invested until withdrawn by the library from the endowment fund. Specific to "true endowments" additions, withdrawals, and/or adverse market conditions could limit the spendable dollars available for distribution. If the endowment's market value is less than the gift amount, no distribution will be allowed until the market value exceeds the total contributions.

With good financial management, typically 5% can be withdrawn from the annual endowment earnings. Per W.S. §18-7-202 (a) (v) the earnings on those investments are to be expended exclusively to benefit and promote the mission,

operation or any program or activity of the public library, including but not limited to augmentation of collections, programs and projects, capital improvements, increases to the corpus of the endowment and defraying reasonable costs of endowment administration.

### **Where are endowment funds held and invested?**

Each Foundation should formally establish its endowment fund(s). The management of the funds can be accomplished by a number of agencies including: local bank trust departments, investment firms, and the Wyoming Community Foundation or even a combination of these. The manager your foundation chooses should implement your written Investment Policy. Your foundation's investment policies should be written to preserve and increase the real principal value of the endowment while providing a dependable stream of income for the library.

Talking to the leadership and top staff of a few large investment organizations will be a very useful to your Finance Committee. You can research investment performance ratings and practices with your local banks and other firms with the guidance of your Board's Finance Committee.

### **What are Unrestricted and Restricted (or Named) accounts within an endowment?**

Endowment funds are raised mostly by soliciting money from donors on an unrestricted basis. This will allow an organization the flexibility to use its judgment regarding the best ways to spend the endowment income.

Restricted or Named Endowment accounts – Foundations can create and offer commemorative naming opportunities because they are symbolic in nature. Of the myriad programs and services conducted by a library as part of its regular annual operation, many can be "packaged" and related to donors' gifts. As membership categories in an annual campaign work to suggest contribution levels, so do naming opportunities for endowment and capital campaigns. A restricted account might name "children's services support", "reference collections", "summer reading programs", "local history room collections", and so on. This is especially helpful to those making "the ask" since it gives them something to "sell." The reason a donor gives should be to benefit the organization, but a naming opportunity at a library, such as the George and Melinda Doe Annual Author Visit, can be a great incentive for giving. Just be sure the amount given is sufficient to warrant a naming opportunity "forever".

Notes about restricted accounts:

1) Be sure that a minimum amount is established for restricted funds, due to the annual special administrative handling required under this model. A typical threshold for restricted accounts is \$10,000.

2) While any organization would welcome fair and reasonable requirements connected to "designated" endowment funds from donors, the organization must carefully review with the donors the mutual understandings, limits, conditions and expectations of such gifts--and to take special care to avoid conditions set forth by any donor which could cause the organization to stray from its basic mission.

### **What kind of tracking is appropriate for the Public Library Endowment Challenge?**

See the information from the State Treasurer's Office. All gifts over \$250.00 require a statement such as: "No goods or services have been offered or furnished which would cause the charitable contribution deduction to be reduced for income tax purposes."

### **Tips for Endowment Record Keeping**

Tip #1 – Open up a separate bank and/or investment account in which to deposit & hold all endowment donations. You will need to keep endowment donations separate from your other foundation funds. The easiest way to do this is by opening a separate account. This leads to tip #2...

Tip #2 – Keep very detailed records. Keep a copy of each endowment check or stock certificate, a copy of the deposit slip, a copy of the thank you letter, and all correspondence that came with the donation (even if it's just a reply card or a sticky note). Keep all of these items stapled together so you can find them all in one place. This system is much better than filing all thank you notes in one place, check copies in another place, and deposit slips in yet another place.

Tip #3 – Keep a cumulative list of all endowment donations. This should include donor name, donation amount, and date of donation. An Excel spreadsheet works best. This helps you two ways: First, to get a match from the State (or from anyone else) you generally have to report all that information anyway. Accumulating it as you go is simplest. Second, you have the details to fill out your "Permanently Restricted Net Assets" on your IRS Form 990.

Tip #4 – Make sure to keep anonymous donors anonymous. It is common for high dollar donors to ask to remain anonymous. Make sure that you do not put their name anywhere where it might inadvertently be made public. For example, in the Excel spreadsheet from tip #3 (above) you would want to indicate in a separate column those donors that wish to remain anonymous. That way, if you use that spreadsheet to prepare lists of donor for recognition purposes, you will be alerted to remove those names.