

## POSITION PAPER FOR ESTABLISHING A SIMPLE \_\_\_\_\_ ENDOWMENT PROGRAM

### MISSION

- **To provide underlying financial support to the mission of \_\_\_\_\_ or its antecedents.**

### SPENDING POLICY

- **One-half of the average gain over the last 20 quarters.**
  - Discussion: why one-half of the amount in 20 quarters? In my experience, 20 quarters is the point at which there would be a continuous uninterrupted amount given to the operating organizations, eliminating any erratic gifting. "One-half of the gain" - this is intended to continually grow the endowment and encourage the growth of the endowment over time. I have seen some of this but only over a 10-year perspective. The inclination of most operating organizations is to obtain more money, make loans and get special project reimbursements beyond the Spending Policy. If the focus is to grow the endowment and provide underlying financial support, it is up to the organization to decide on their priorities and use of their operating funds. (The inclination of the organization is to do everything they can, given the passion that they have, to obtain funds to drive programs that they believe in.)

### INVESTMENT POLICY

- **Invest in the most progressive program available in an established, reputable, known community foundation or foundations.**
  - Discussion: Much time and mismanagement is spent in the financial aspects of investments and managing administration required in establishing a separate organization. Frequently this separate organization is no more than an extension of the board. Because of that board control, endowment funds are frequently mismanaged and allowed to support poor management of the organization. I've experienced this with many different forms of social, arts and education endowments. I'm presently conducting a study to establish the many holes that foundations have to better illuminate this issue, making it available to nonprofits via our personal website. I expect this to be complete by fall 2006.
  - **We have selected a community foundation.**

### LOANS OR GUARANTEES

- **The Board and Trustees of \_\_\_\_\_ expressly prohibit loans and guarantees from endowment.**
  - Discussion: It is the practice of nonprofits that get into financial difficulties (which are frequently associated with the transition of management or Boards that are not engaged) to make loans on optimistic expectations rather than balance their budgets. Sometimes loans from the endowment may pay interest at a higher rate than the endowment may be receiving from their investments (part of the rationale) or guarantee bank loans. To avoid this practice, it's prudent to have specific language in the trust agreements, policies and practices of the organization and Articles of Incorporation to exclude such loans and guarantees, both to the Board from the trustees and to the trustees from the Board. I have a number of examples where endowments have been wiped out because of this practice. It can also be likened to small business practices that when in trouble do not send in the payroll taxes that they have deducted from payrolls. Effectively a violation of a trust account.

## **BEQUESTS TO**

- **Bequests, testaments and wills to \_\_\_\_\_ will be considered intended for the endowment unless expressed otherwise.**
  - Discussion: Bequests and testaments frequently are given to an organization. Those that are bequeathing the organization are really interested in its continuance and support of the organization. If specifically asked the question, a great majority would say they assumed the money would go to endowment. Unless the bequest specifically states it should be put in endowment or the organization has a specific policy that such bequests are put into endowment, these funds go into Board designated accounts according to recent accounting principles. It's not unusual that smaller organizations that have a long history of constituents will, for years, rely on bequests to balance their budget, avoiding addressing the management that is actually going on within the organization. At any given moment within an organization, on occasion, many things can be rationalized. This is one of them.