

ABC CHARITY SAMPLE ENDOWMENT POLICIES

I. GENERAL ENDOWMENT POLICIES

A. Purpose

The Board of Directors of ABC Charity (hereinafter “ABC”) recognizes the importance of establishing policies for the creation and management of endowed gifts to ABC Endowment (hereinafter ABC Endowment) to ensure fiscal integrity, accountability, transparency, and to support donor investment in ABC’s long-term mission and vision.

A-1. Role of Endowment. The ABC Endowment holds funds committed to ABC’s charitable mission and vision to ensure its ability to make long-term investments in its charitable mission. ABC’s endowment represents permanent operating reserves created through engaging its donors funding long-term solutions to the community’s greatest human services needs. Endowed funds allow ABC to execute key strategies, sustain services through economic downturns that increase need and limit resources, and to act quickly when opportunities to meet critical community needs arise. ABC encourages individual donors, corporate donors, and foundation donors to establish permanent funds as a part of its endowment to benefit and further the mission of ABC.

A-2. Role of Policies. These endowment policies are designed to define the standards for acquisition, administration, and management of endowed gifts. These policies anticipate the most common issues encountered in developing and managing endowed gifts. In the event these policies do not anticipate a specific gift issue, the Endowment Oversight Group, as described in Section I-C, shall determine the recommended course of action.

B. Endowment Definitions

B-1. Endowment Funds. Endowed funds are those funds committed to the long-term or perpetual use of ABC where the principal is invested and the earnings from the gift are used to fund areas of interest directed by the donor and approved by the Board of Directors in the case of restricted endowments, or for the purposes designated by the Board of Directors in the case of unrestricted endowments. The endowment pool will hold two types of endowed funds: true endowment and quasi-endowment.

[a] True Endowment. True endowment is any gift where the donor, in writing, directs the principal of the gift to be invested and the earnings to be used for ABC’s restricted or unrestricted purposes. This written restriction on use of principal may be in the form of a letter, other written instruction accompanying the gift, written instruction on a pledge card, endowment agreement, bequest under will, testamentary gift under a revocable or living trust agreement, or similar written direction.

[b] Quasi Endowment. A quasi endowment is a gift contributed to ABC without endowment restriction which is subsequently allocated to endowment at the direction of the board. Funds allocated to the endowment by the Board can be withdrawn or recharacterized by the Board at a later date or otherwise expended in accordance with Section V-C of these policies.

B-2. Separately-Accounted Funds. Separately-accounted funds are those funds requiring separate accounting of principal and income of the funds, and in some cases an alignment of that fund’s income with restricted purposes established by the donor. Due to the cost of separate fund accounting, alignment of income and oversight to ensure the funds are spent for the purpose intended, and annual accounting to the donor, the endowment policies herein require such funds to meet minimum funding levels.

B-3. Pooled Endowment Funds. Pooled endowment funds refers to the pooling of contributions from multiple donors for a single purpose. This purpose may be as narrow as a specific area of interest or as broad as the unrestricted use of ABC. Donors to pooled funds do not receive an accounting relating to their contributions although they do receive an annual report of the impact of the pool.

B-4. Endowment Naming Opportunities. A donor creating a separately accounted fund may associate his name, or a name selected by the donor and approved by ABC, to the separately accounted fund. In addition, ABC may allow a donor to associate his name with a pooled fund at certain contribution levels.

B-5. Unit Accounting. To the extent possible, endowment gifts are pooled, or combined, in ABC's general endowment pool for investment purposes. Unit accounting is employed to track separately accounted funds and pooled funds by assigning a value to units and allocating units to each fund depending on its value. Unit accounting allows ABC to allocate investment gains, investment losses, investment income, and investment and administrative fees.

B-6. Uniform Prudent Management of Institutional Funds Act. Charitable endowments for [here insert states] nonprofits are governed by the [here insert the state code reference], the Uniform Prudent Management of Institutional Funds Act. Under this statute, "endowment fund" is defined as "an institutional fund or part thereof that, under the terms of a gift instrument, is not wholly expendable by the institution on a current basis." The term does not include assets that ABC designates as an endowment fund for its own use.

C. Endowment Oversight Group

C-1. The Role of the Endowment Oversight Group. The role of the Endowment Oversight Group is to:

- Ensure systems and practices align to create a swift review, acceptance, establishment, reporting, and stewardship of endowed funds in accordance with the policies set out herein;
- Maintain ongoing and accurate information about new funds established on behalf of ABC;
- Ensure appropriate and timely communication with all areas of ABC involved in endowment review, acceptance, administration, reporting, and stewardship; and
- To resolve roadblocks, answer questions, and address issues as they arise.

The Endowment Oversight Group is the responsible authority for oversight and management of the endowment and for final approval of all new funds.

C-2. Members of the Endowment Oversight Group. The Endowment Oversight Group should be comprised of the following members or individuals (or individuals delegated by these members):

- Chief Development Officer (Chair)
- Chief Executive Officer
- Chief Financial Officer
- Chief Operating Officer
- The Chair of the Board Endowment Committee
- The Chair of the Board
- Such other members as are appointed by the Chief Executive Officer

C-3. Meetings. The Endowment Oversight Group will initially meet to draft and adopt these policies and to make a recommendation that the policies be adopted by the Board of Directors. Thereafter, the group will meet as required to resolve issues and review progress in building endowment, but no less than semi-annually.

D. Administrative Fees

To provide for reasonable and actual costs (both direct and indirect) of managing the endowment funds, ABC shall annually charge a fee, not to exceed one percent of the funds in hand on the first business day of the fiscal year, on each endowment fund based on the fair market value of the funds.

II. CREATING ENDOWED FUNDS

A. Endowment Structure

A-1. Goals of Endowment Structure. A well-structured endowment not only communicates the impact of expenditures, but provides a method for donors to designate gifts to specific areas, without limiting the use of the gifts through narrow restrictions.

A-2. Areas of Endowment Giving. The endowment will be divided into four sectors as set out below:

[a] Sector I

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[b] Sector II

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[c] Sector III

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[d] Strategic Priorities (Unrestricted)

- Unrestricted funds to be allocated by the board annually to the greatest, most urgent needs of the organization (including operations)

A-3. Pooled Funds for Each Category. Each of the four sectors will be established as a separately-accounted pool to allow donors at any gift level to make gifts to the pool. Those gifts may be used for any purpose within that designated area as the Board of Directors deems appropriate. Donors may create named funds within a sector in accordance with B-5(b) and may create separately accounted funds within a sector in accordance with B-5(a).

REPRESENTATIVE ENDOWMENT STRUCTURE

B. Establishing a New True Endowment Fund

B-1. General Guidelines. New endowments benefiting ABC should meet the following general requirements:

- The endowment purpose must fit within and fulfill ABC's mission and purpose;
- The endowment terms must fall within the policies set out in this section, or be approved by the Endowment Oversight Group as an exception;
- ABC must be able to manage the endowment on a cost effective basis and to administer the fund in accordance with the terms of the endowment agreement;
- When possible, the endowment should be governed by a document that clearly defines the gift purpose and provides long-term, non-judicial flexibility in the event circumstances change over the term of the agreement, provided, however, such documents may not be possible where endowed gifts are created through a deferred gift about which ABC had no knowledge.

B-2. Fiduciary Responsibility. The Board of Directors has a fiduciary responsibility for acceptance, oversight, and management of endowed funds subject to California law and applicable federal laws. The new account acceptance process is designed to ensure ABC meets all fiduciary, legal, and administrative requirements of the gift, that the donor is provided all relevant information about the use of the gift, and to encourage and support donors in making endowed gifts to ABC.

B-3. Maintaining the Balance of Interests on Gift Acceptance. ABC should balance the needs of ABC and the interests of the donor in acceptance of endowed gifts.

[a] The Needs of ABC. ABC's goal is to ensure that:

- All new endowments support ABC in furtherance of its missions and programs;
- All new endowment documents will be structured in a way that ABC can administer and manage on a cost-effective basis;
- All assets contributed to fund endowed funds can be reduced to cash and invested in a cost effective manner, and do not create potential liability for ABC upon acceptance;
- Donors understand the terms of the endowment and that those terms are reduced to writing; and
- That ABC has long-term, non-judicial flexibility to adjust the terms of the endowment if the purpose specified becomes impractical, impossible, or too small to administer effectively.

[b] The Interests of the Donor. Donors who make endowed gifts to ABC support the long-term growth of its programs and services, and generally have specific personal goals as well. ABC shall make the process of creating a permanent endowment:

- As transparent as possible, explaining to the donor how the gift will be used, the timing of distributions from the fund, accounting, if any, that will be provided, and a sample document containing this information;
- As positive as possible, reflecting the gratitude for the donor's gifts;
- As supportive as possible, providing information as requested about structure and the assets to be used to fund the endowment on a timely basis, providing sample documents or other requested information and

encouraging them to consult with their personal advisors for information and advice; and

- As timely as possible.

B-4. Approval of New Endowed Funds. All endowment documents must be signed by:

- Chief Executive Officer
- Chief Development Officer

B-5. General Standards for Minimum Fund Sizes. ABC's Board of Directors recognizes it is not feasible to accept separately accounted endowment gifts that are so small the costs to administer and account for the funds would exceed the charitable distributions from such funds. Therefore, the following minimums govern new endowed funds:

[a] Minimum Size for Separately-Accounted Funds. The minimum size for new endowment funds requiring a separate accounting and alignment of income is \$100,000. These funds will require separate financial tracking and alignment of the fund's income with the purpose designated.

[b] Minimum Size for Named Funds. The minimum size for new endowment funds requiring no separate accounting but reporting the donor's name(s) in each year's endowment report is \$50,000.

[c] Minimum Size for All Other Gifts. Endowment contributions less than \$50,000 must be contributed to a pooled fund sector. All undesignated gifts shall be allocated to the unrestricted sector which can be used for the areas of greatest need as determined by the Board of Directors.

[d] Exceptions. Exceptions to these minimums may be made only by the Endowment Oversight Group.

B-6. Contributions to Existing Funds. Contributions to existing funds may be made in any amount. Such contributions will be governed by the document governing the fund to which the additions are made. Donors contributing to existing funds may do so using a Letter of Agreement that directs the contribution to a specific fund, subject to the terms of that document.

C. Funding Quasi-Endowment

ABC may fund quasi-endowment in several ways:

C-1. Allocation of a Portion of Deferred Gifts. ABC will allocate amounts as determined by Board policy of undesignated deferred gifts such as bequests, charitable trust distributions, IRA beneficiary designations, and similar gifts triggered by the death of the donor to Quasi-Endowment.

C-2. Allocation of a Portion of Large Gifts Made During the Year. Occasionally, ABC will receive a large gift made by a donor upon the sale of a business, retirement, or other financial triggering event. The Finance Committee, with the approval of the Board, may allocate a portion of this gift to quasi-endowment.

C-3. The Sale of a Capital Asset. Occasionally, ABC may sell an asset without the need to reinvest such asset in similar property. The Finance Committee, with the approval of the Board, may allocate all or part of these proceeds to quasi-endowment.

C-4. Donor Allocation. Donors may choose to allocate gifts to quasi-endowment.

D. Use of Endowment Agreement for Separately-Accounted Funds

D-1. General Intent. Endowment donors who create separately-accounted funds should, whenever possible, use ABC's sample Endowment Agreement. (Appendix A) Such an agreement has the advantage of clearly defining the donor's goals and expectations in creating the gift, stating the purposes for which the fund's revenue will be applied, and providing flexibility for change or early termination as necessary. ABC's General Counsel will be responsible for drafting and publishing such sample documents for donors and their advisors.

D-2. Elements of the Endowment Agreement. The endowment agreement should contain the following elements:

- Name of donor(s)
- Name of fund or name of pooled fund
- Date of agreement
- Term of agreement
- Purpose of fund use (as broadly stated as possible to allow perpetual use of the funds), purposes for which funds may be dispersed, and discretion to approve distributions
- Manner and schedule for funding
- Ability to add funds to endowment (and requiring that those funds are administered in accordance with the document)
- Ability to pool investments (state law allows)
- Administration of funds
- Manner of amendment
- Philanthropy Protection Act of 1995
- Contingency language stating that when the specified purpose becomes illegal, impractical or can no longer be carried out or meet the needs of ABC the Board of Directors may designate an alternate charitable use, and that the funds can be transferred to an endowment fund that reflects most closely the donor's gift goals, or to ABC's general endowment.

D-3. Language Not Permitted. Documents will not be accepted that allow the donor, or an individual named by the donor, to retain the right to direct, approve, or otherwise influence investment decisions after the gift is complete.

III. STEWARDSHIP STANDARDS

A. The Role of Stewardship

Stewardship of endowment donors and donors who make deferred gift commitments to endowment is of paramount importance in ensuring accountability of the gift purpose, increasing the gift satisfaction of donors, and maintaining ongoing relationships with donors.

B. Annual Stewardship Plan

ABC's Chief Development Officer, working with the Chief Financial Officer, shall create an annual stewardship plan for current and deferred endowment donors.

B-1. Annual Reporting and Communications. ABC is committed to reporting to its donors and the general public about its endowment. For this purpose, ABC will include endowment information in its annual report, in its campaign report, in a separate report on endowment, on its website, and in other forms as appropriate.

[a] Annual Report. Endowment information in the annual report shall include:

- The endowment's net assets and investment return for the prior five years, highlighting the current year return;
- The market value of each endowment sector and the endowment as a whole;
- A general report of endowment spending for the year with a focus on the impact of those distributions; and
- Such other information as the Chief Development Officer and Chief Financial Officer deem appropriate.

[b] Annual Endowment Report. An annual endowment report shall be prepared for donors, donor families, endowment prospects, and the interested public. This report may be prepared as a stand alone report or a subset of the annual report.

- The endowment's net assets and investment return for the prior five years, highlighting the current year return;
- The market value of each endowment sector and the endowment as a whole;
- The fund names associated with each endowment sector;
- Information for donor advisors that includes contact information, one or more sample endowment agreements (approved by General Counsel), and areas of need;
- The case for endowment;
- A list of current year endowment donors;
- A report of endowment spending;
- Such other information as is necessary to fully disclose endowment spending and creation.

[c] Endowment Information on Website. The website should include the following endowment information

- The endowment's net assets and investment return for the prior five years, highlighting the current year return;
- The market value of each endowment sector and the endowment as a whole;
- The fund names associated with each endowment sector;
- Information for donors and donor advisors that includes ABC contact information, one or more sample endowment agreements, and areas of need;
- The case for endowment;
- A list of current year endowment donors;
- A general report of endowment spending;
- Information on how to make a gift to endowment (including various gift forms);
- Such other information as is necessary.

C. Annual Contact with Living Donors for Separately Accounted Funds

The ABC stewardship plan should contain, at a minimum, the following activities for living donors with separately-accounted funds; stewardship will be provided by the the individual assigned by the Chief Development Officer.

- An ABC annual report
- An endowment annual report (if separate)
- A personalized letter reporting the fund balance and the impact of the fund for that year, signed by the President & CEO of ABC
- At least one phone call from a program staff member at ABC to say “thank you” to the donor
- At least one phone call from the planned giving telephone team to say “thank you to the donor” and to ensure that donor has the information he or she needs to monitor the fund performance
- Such other materials or activities as are appropriate

D. Annual Contact with Living Donors with Named Funds

The ABC stewardship plan should contain, at a minimum, the following activities for living donors with named funds.

- A ABC annual report
- An endowment annual report (if separate)
- A personalized letter reporting the general impact of the spending from the endowment sector for that year signed by an individual associated with that sector
- At least one phone call from planned giving telephone team to say “thank you to the donor” and to ensure that donor has the information he or she needs to monitor the fund performance
- Such other materials or activities as are appropriate

E. Annual Contact with Current Donors to Endowment with Neither Named Nor Separately Accounted Funds

The ABC stewardship plan should contain, at a minimum, the following activities for donors to endowment with neither named nor separately accounted funds who have made gifts of \$10,000 or more stewardship will be provided by the individual assigned by the Chief Development Officer.

- An ABC annual
- An endowment annual report (if separate)
- Such other materials or activities as are appropriate

F. Annual Contact with Families of Deceased Donors with Separately Accounted or Named Funds to Endowment

- An ABC annual report
- An endowment annual report (if separate)
- A personalized letter reporting the fund balance and the impact of the fund for that year, signed by an individual associated with the relevant endowment sector
- Such other materials or activities as are appropriate

IV. INVESTMENT MANAGEMENT POLICIES FOR ENDOWED FUNDS

A. Responsibility for Management of Endowed Funds

The Board of Directors has designated responsibility for oversight of the investment management of endowed funds to the Finance Committee of the Board of Directors. The Finance Committee may decide

to hire local managers to provide investment management of the funds or may use the national office of ABC Charity's pooled endowment fund for investment management.

B. Related Policies

In the event the Finance Committee decides to use local managers for investment of the endowment funds, the Finance Committee shall create investment policies governing the management of those funds and shall submit them to the Board for approval. These policies will then be shared with the investment managers with responsibility for the funds to provide guidance in investment decisions.

C. Unit Accounting

ABC pools all endowed funds over which it has ownership and control, unless otherwise prohibited by the gift document, to achieve the most effective, efficient, diversified, long-term management of the funds. When endowed assets are received, these new assets are assigned units in the pool based on the unit value on date of entry.

D. Spending Policy

D-1. Purpose. The ABC Endowment Oversight has authorized the adoption of a spending policy which is designed to protect ABC's budget from the vagaries of year-to-year fluctuations in market returns, changes in yields from year to year that result from changes in interest rates, dividend levels, and pay-out rates, and provide for a gradual increase in spendable earnings from year to year. Adoption of this policy is in accordance with the California Uniform Management of Institutional Funds Act and designed to protect the historic dollar value of the endowment. .

D-2. Spending Calculation. Each year the Finance Committee will recommend a spending amount expressed as a percentage of the average market value of the endowment pool over the prior 12 quarters. This percentage shall take into consideration the standards set out in Section 18504 of the California Probate Code, Uniform Prudent Management of Institutional Funds Act.

D-3. Determination of Annual Distribution. The Finance Committee will set the distribution amount within the spending policy set out above by May 1 of each year in order to allow ABC prepare a budget for the year.

D-4. Undistributed Accounting Income. Any undistributed accounting income should be added to the corpus of the fund generating such income at the conclusion of each year.

D-5. Distribution Cycle. Distributions from endowment funds may be made on any cycle deemed appropriate to achieve the purpose of the funds and reduce administrative costs and oversight.

V. DECISIONS ABOUT DISTRIBUTIONS FROM ENDOWED FUNDS

A. Distributions from True Endowment Limited to Annual Spending Amount

Distributions from true endowments, which are funds restricted to endowment in writing by the donor, shall not exceed the annual spending amount set by the Board.

B. Distributions from Pooled Funds for Specific Endowment Sectors

B-1. Funds to Which This Section Applies. Donors may designate gifts of less than \$100,000 to one of four specific program sectors (or an undesignated sector) under Section A A-3 of these policies. These funds are managed as a

pool for the named sector. This section applies to distributions from each of the four specific program sector pools.

B-2. Recommendations on Spending. The Division Director aligned with each specific sector shall be notified of the pool spending amount and asked to make recommendations on how that sectors funds will be spent. Spending recommendations should reflect ABC prorates, new programs, or other spending representing key, unfunded budget items. These recommendations shall be made by June 1 of each year.

B-3. Approval of Spending. Spending recommendations shall be approved by the President & CEO of ABC and reported to the board at its next regular meeting.

C. Distributions from Quasi-Endowment

To the extent possible, annual distributions from quasi-endowment – which are funds allocated to endowment by the Board – shall not exceed the annual spending amount set by the Board. However, in the event of special circumstances such as those detail below should arise, distributions of up to ___% of the quasi endowment fund upon approval of a majority of the Board of Directors.

- The Board of Directors wants to acquire an agency to deliver one or more critical services;
- The Board of Directors wants to borrow from quasi-endowment to purchase real estate essential to its mission;
- ABC is experiencing an extreme budget shortfall due to economic conditions or other unforeseen circumstances; or
- Such other extreme situation that could not be anticipated.

Quasi endowment shall not be spent down as part of a regular annual budget-balancing distribution from funds.

VI. CHANGES TO THESE POLICIES

A. Annual Review of Endowment Policies

The Endowment Oversight Committee shall make an annual review of these endowment policies on a schedule set by the Committee and make any recommendations for change to the Board of Directors no later than March 31 of each year.

B. Approval by the Board of Directors

All changes recommended by the Endowment Oversight Committee shall be presented to the Board of Directors at its next regularly scheduled meeting, considered, and approved as appropriate.