It's All About Endowment

But Most Nonprofits Still Don't Get It *By Debra Ashton*

A title like that certainly entitles a fundraiser to ask, "Okay, what is it precisely I don't understand?" So first let's look at what's special about endowments.

You could say what sets endowments apart is that they're "leveraged." Look at annual giving: As the money comes in, you use it to pay off the various day-to-day expenses of your nonprofit: money in, money out. With endowments, however, you never spend the principal of the gift. Your charity uses the interest earned by the invested endowment funds to pay its bills and to support its programs. So at the end of the day you still have the original gifted funds. And they're still working for you, earning more interest to pay next year's bills.

Small Is As Small Does

For example, let's say you're a small nonprofit community center, and the rent for your facility costs $25,000 a year. Instead of constantly running around trying to solicit multiple small gifts every year to cover that cost, you go for a larger, planned gift. *An endowment gift of $500,000 earning 5% annually takes that cost off your books permanently.* By their very nature, endowment gifts strengthen your nonprofit's position in perpetuity.

The fact is an endowment can be used very effectively to offset operating expenses. And it's equally easy to market this kind of giving: just go down the list of expenses on your charity's balance sheet. Rent, maintenance, utilities, office expenses, vehicles, programs, whatever – each one of these represents an opportunity for you to suggest that a donor endow a named fund to permanently eliminate it as an expense.

So what's holding some nonprofits back from soliciting endowment gifts?

Nothing but Fear Itself

I think they may worry that if they go after these larger, gifts, somehow their annual giving cash is going to disappear. So, okay, worst case scenario: even if you don't get that $1000 annual gift from a donor who decides to make a $20,000 endowment gift, you're going to have the earnings that principal provides, and you have the principal itself. Plus, as I said above, an endowment gift can eliminate a cost from your balance sheet permanently, which is something annual giving can't.

Over...

Philanthropy is not a zero-sum game. Getting more support over here doesn't mean you have to lose the same amount over there. *When you choose not to solicit for endowments, you're cutting your nonprofit off from the larger, transformative gifts that really make a difference to you and your organization.*

Endowment giving enables a quantum leap of engagement with your supporters. Donors who make those larger, transformative donations to your institutions now feel that you are part of their family (and vice versa). They are more deeply involved with the success of your mission, and therefore *more likely to give more often in the future*. Also, those donors who make larger gifts have earned a more intense level of stewardship from your charity – more cultivation, more information, more contact, etc. So they actually become *more likely to continue* to give after they make an endowment gift. It's a win-win situation.

No Special Skills Required

Some nonprofits worry that soliciting and managing endowment gifts requires extra effort or ability, but they can relax. *Endowment giving isn't rocket science.* There's nothing unusual about having your lawyer draw up an endowment instrument. Nonprofits routinely work with lawyers and the only reason you need a lawyer for endowments is to set them up properly under applicable state laws. *The rules of nonprofit governance aren't so esoteric that your organization's legal eagle can't handle it.*

Still, some nonprofits make it even easier for themselves by *partnering with a local foundation* that takes care of endowment details. That's the foundation's mission as a public charity: the endowment account is set up through the foundation, and the foundation administers it. While a management fee may be involved, for the smaller nonprofit that wants to go after endowment gifts with the least trouble, this is a convenient option.

This is no time to let opportunities slip through your fingers

Donors are becoming increasingly sophisticated in investments and philanthropy because the big charities are telling them about attractive ways to give. Basically, smaller nonprofits have to shed any inferiority complex that's holding them back, and step up with equally proactive and attractive plans, like endowment.

Because if you don't, you're losing out on those more significant, larger, transformative donations.

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