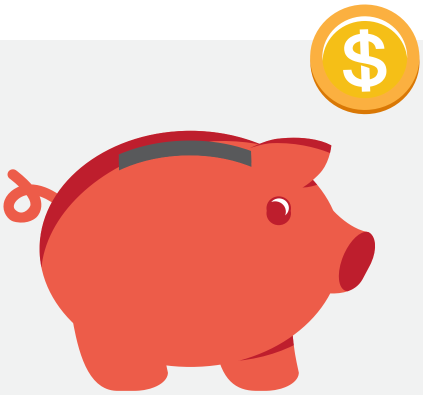
5 IMPORTANT CONSIDERATIONS FOR NONPROFIT ENDOWMENT MANAGEMENT

If you're looking for dependable, consistent income for your nonprofit, look no further than endowments. Endowments decrease the pressure put upon your annual fundraising team and, properly managed, can earn 10% return—typically half of which you will use toward annual expenses and half to grow the endowment for the future.

When discussing endowments, many offer vague definitions of banked operations money earning interest and dividends—and, in part, this is correct, but there's more to it. In technical and accounting speak, the endowment is only the portion *permanently restricted*—either because the donor required such or because it was collected as a permanent-investment reserve. Accountants therefore cite *quasi-endowments* when the nonprofit's management or board of directors set aside additional reserves for investment. Depending upon the discussion at hand, this may be a distinction without a difference, but not so when it comes to accounting processes or using cash reserves. Let's take a look at five important points of consideration you should keep in mind when managing current endowments, or when considering the pursuit of new endowments.



1 Value: In an AccuFund February 2015 survey of 716 nonprofits, 296 affirmed endowments of various sizes. Of 219 responses: 182 manage less than $100 million, 35 manage $100 million to $1 billion, and only 2 manage more than $1 billion in endowment funds. According to the National Center for Charitable Statistics (NCCS), there are more than 1.5 million nonprofit organizations registered in the U.S. If we dare extrapolate the percentage, approximately 41% of nonprofits are managing endowments, and it's a strategy that makes sense. Endowments enable nonprofits to maintain consistency in operating funds which makes them appealing to any organization desiring a steady income.

2 Accounting: For those currently managing endowment funds, AccuFund found 12% of the responding nonprofits are using Excel spreadsheets for managing their organization's funds, and 24% are using Quickbooks. What's more, 40% said they were unhappy with or were unsure about their current endowment accounting solution.

Depending upon the size of the fund, the use of non-specific applications for managing an endowment and generating donor reports is more labor intensive, more prone to errors and not likely to instill confidence with the recipients. Generic applications require substantial customization or manual entries in order to distribute earnings and expenses or provide auditability—a scenario rife with opportunity for error.

Technological change comes at an astounding pace, as do changes in laws and practices—making them impossible to manage effectively and long-term with non-specialized applications. Your software needs to be able to provide you and your donors reports and projections at a click, thus shifting the burden of managing software updates, requirements, and features to the vendor instead of the nonprofit—as it should be.

Your organization should review accounting and reporting needs every three to five years—or as your endowments grow. In this way, you can be assured your software is providing you with appropriate features for your needs.

If you're in pursuit of endowments, beginning with a sound infrastructure will enable you to commence the process with fewer concerns, better visibility for you, and better transparency for the donor.

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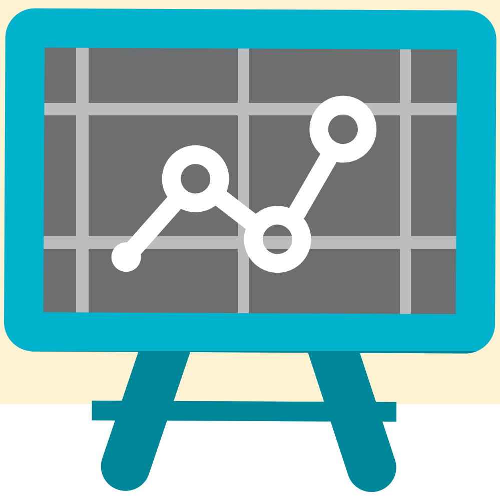
3 Spending Policies: In the past, spending policies were based upon a 1960s methodology with a primary goal of dampening volatility in spending. Today's economic environment changes much too rapidly and this gives cause for new consideration of old ideas. Like accounting practices, spending policies must be reviewed regularly and adapted to the organization's current situation in order to manage and reduce risk. In the age of instant gratification, the nonprofit must be able to make adjustments to policies on the fly—and for some, this can mean establishing upper and lower limits, rather than hard-fast spending rules. Only 40% of nonprofits surveyed by AccuFund reported they were sure they could handle specific named-fund exceptions to spending policies.

4 Fee Policies: There is a cost for the management of endowments. This fee is usually adjusted annually, based upon your organization's budgeted and actual expenses—for which accounting and reporting must take place. In order to encourage larger endowments, nonprofits can establish a tiered fee policy, which will encourage generosity and lower management costs. Only 69 of 217 survey respondents confirmed their organization is capable of handling multiple fee policies based upon criteria such as endowment size, historical changes, negotiated rates, and others.



5 Reporting: According to the National Association of Nonprofits, "Transparency inspires confidence. Beyond what the law requires, nonprofits can demonstrate their commitment to ethical practices by being entirely transparent with financial information and fundraising practices." Yet, in the survey AccuFund conducted, and of 216 respondents, 37 *never* provide periodic fund statement reports, and 152 answered either monthly (10), quarterly (30), semi-annually (8), and annually (104); 27 were unsure of the reporting frequency. Confidence is key—in all fundraising activities, including endowments.

Consumer Research found that, ***"by being more transparent, nonprofit groups may be able to generate trust from the public and increase the amount of donations they receive from regular donors."*** While their study was aimed at smaller donations, the message is clear: **the more your donor knows, the more they are likely to give.** It's important your organization has the appropriate tools, not just for managing the endowment, but also for sharing results with the donor, management, and board of directors.