

A Model of Endowment Building and Spending Policies that Promote Financial Sustainability

The following provisions are examples of policies that can help an organization build financial stability through endowment building and spending. Conversations around these types of policies and approval of those that are appropriate for the organization can help a board create a road map that will lead to sustainability for the future of the organization.

Purpose

The purpose of this policy is to ensure the financial stability of the mission, programs and ongoing operations of _____. It is intended that this policy provide guidance in the management and spending of restricted and unrestricted funds with the ultimate goal of creating sustainability for _____.

Duties and Responsibilities

In recognition of its fiduciary responsibility, the Board of Directors (the Board) of _____ has adopted the following policies around the investment and spending of funds and should review it as needed to ensure it is consistent with _____'s strategic objectives. The Board is also responsible for approving amounts to be placed in the different types of funds.

The (Finance) Committee is responsible for reviewing the management and investment of the funds in accordance with this policy.

The _____ Committee will recommend investment policy and meet at least _____ to propose investment decisions and report to the Board.

Any member of a committee with a conflict relating to an investment decision will abstain from voting on that matter.

Types of Funds

_____ has four different types of funds.

Operating Fund: The Operating Fund shall be invested with the objective of preserving its assets to cover expenses and realize earnings in a way that allows for immediate liquidity to meet _____'s ongoing operational needs. Operating Fund assets shall be maintained in a checking account that _____ uses for day-to-day operations or other cash-equivalent investments, like savings accounts, money markets or certificate of deposits. _____ will seek to build its funds to create a reserve fund.

Reserve Funds: _____ will maintain an operating reserve that will be no less than _____ months minimum and no more than _____ months of the annual operating budget. The operating reserve will be reviewed by the Finance Committee at least annually to see if _____ is in compliance with this policy. An amount should be built into the annual budget to build the operating reserve to the desired level. Earnings from the operating reserve investments will be added to the balance until the desired reserve balance is achieved. When the desired balance has been achieved, the Board will determine if funds should be transferred to either a designated long-term fund or endowment fund. Capital preservation and liquidity are the two main objectives for the investment of

the operating reserve, and the portfolio will be one with a short-term focus using money market funds, certificate of deposits and other types of liquid assets.

Designated Long-Term Funds: Currently in a Nonprofit Designated Fund administered, managed and invested by _____, the principal of these funds can be accessed, based on board-approved determinations. _____ shall treat the Designated Fund at _____ as if the investment objective were to preserve the principal and limit its access to a distribution of up to ___% per year except under the following circumstances: The Finance Committee recommends that _____ withdraw a specific amount to cover an emergency situation, a _____, or a _____ and the Board of _____ affirms the Finance Committee's recommendations by a majority vote. The Board can request the distribution from _____ at any time of year that makes sense for _____'s cash needs.

Endowment Funds: The Endowment Funds shall be invested and managed with the objective of maintaining the principal in perpetuity or for a designated period of time and directing an annual distribution of income of _____ (up to 5% of the 12-quarter rolling average) towards general operations or a specific program or interest based on donor intent. The investment objective of the Endowment Funds is preserving long-term real purchasing power of the Fund's assets while realizing appropriate investment income. The asset allocation of each Endowment Fund shall be determined from time to time by the Board in consultation with managers if desired and the Finance Committee. _____'s Endowment Fund is administered, managed and invested by (*Rose Community Foundation*). The Finance Committee will review the investment returns on a quarterly basis and make recommendations to the Board on whether _____ should change the allocation of the Funds from using (*Rose Community Foundation's*) asset allocation to weighting the diverse pools of assets differently than the Foundation's asset allocation. The Board may consult external investment managers to help it make its decision.

(The following provision is an example of a diversification policy.)

Diversification: Investments of each Fund will be diversified to limit the risk of loss resulting from the concentration of assets in a specific type of investment, specific maturity, specific issuer or sector unless the Board prudently determines that, because of special circumstances, the purposes of the Fund are better served without diversification. For both Endowment and Designated long-term Funds, the Board has authority to invest in common stocks, fixed income instruments, mutual funds, alternative investments including hedging strategies, limited partnerships real estate investment trusts, and cash equivalent investments. The Finance Committee shall review the diversification strategy quarterly, *provided, however*, that it shall review any decision to not diversify as frequently as circumstances require but, at a minimum, annually.

Building Endowment Funds through Unrestricted Bequests and Other Types of Unrestricted Planned Gifts

In order to promote the growth of _____'s Endowment Fund, The Board will direct at least ___%¹ of any unrestricted bequest or other type of planned gift such as retirement funds or life

¹ One recommendation is 75-100%. Other examples include: 1) ensuring reserves are at ___ months and directing the remainder into an endowed fund; 2) directing a specific percentage to endowment, unless in a capital campaign, in which case up to ___% can be directed to capital upon board approval

insurance proceeds towards the _____ Endowment Fund and the remaining percentage may be used towards general operating, capital or program needs.

(Optional)

Named Endowments

The minimum required to establish a named endowment is currently _____. The Board will review this minimum periodically and may adjust it to reflect inflationary factors. An individual endowment for a specific purpose may be established subject to the consent of the _____'s Board.

A named endowment may be established either by a living donor or by bequest. When an endowment is created by a living donor, the donor and _____ will sign an endowment agreement that sets forth the terms of the endowment. Although donors who desire to establish an endowment upon their death are encouraged to execute an endowment agreement in advance, one is not required, should a donor's will be executed which contains language directing that a named endowment be established.

No distribution can be taken from such endowment until the time when the fund balance reaches _____. If the named endowment does not reach _____ in a five year period of time, such endowment may, upon the recommendation of the Finance Committee and approval of the Board, be incorporated into the (fill in with the name of organization's general endowment fund) fund.

Any amount may be added to the _____ Endowment or Designated Fund or for any previously established named endowment. If the donor has restricted the use of the gift to a particular program, it will be placed in the appropriate program's endowment fund.

The distribution shall be in an amount up to _____% and shall be distributed annually with no more than one payment in any twelve month period.