1 What Is Endowment?

This chapter enables you to:

- Understand the role of endowment funds in nonprofit organizations and society.
- Explain the benefits and possible pitfalls of endowments for a cause, its donors, and its staff.
- Describe why some critics eschew endowments.
- Define three types of endowment and how they may be regulated.
- Review the history of endowments in various cultures.

Endowments, generally, are financial assets that are held permanently by a nonprofit organization and invested to create income and capital appreciation. A reasonable portion of the endowment's value is spent annually to support programs and operations, while the excess income and/or appreciation are accumulated in the fund, so it grows over time as a hedge against inflation. Endowments can be established to support the ongoing operating expenses of a nonprofit organization or for designated purposes such as scholarships, projects, programs, institutes, endowed positions, or any aspect of its charitable work.

This chapter presents the benefits and pitfalls of endowments for an organization, its supporters, and its fundraising team. It describes the three kinds of endowments, various accounting and reporting considerations, strategies for building endowments, and the historical context for endowments.

Endowment in Today's Context

Traditionally, endowment has been the gold standard for ensuring that a cause has financial resilience, especially in the United States. Colleges and universities have set this standard with endowments of eye-popping amounts that rival the total market value of large publicly traded companies like General Motors or General Mills. But this treasure has not been distributed equitably. The smallest endowment among the Ivy League schools is $8 billion, which provides Dartmouth College with nearly $350 million annually to fund programs and scholarships, but the typical Historically Black College or University (HBCU) endowment is well under $100 million. That's why they say that when PWIs (predominantly white institutions) catch a cold, HBCUs have pneumonia.[1] According to www.hbcumoney.com, the top 10 endowments among PWIs total more than $300 billion (about $920 per person in the United States), while the top 10 HBCU endowments are less than 1% of that amount, at $2.5 billion. No wonder Harvard University's leaders were called "tone deaf" when they launched a $100 million endowment campaign to fund its own study of its ties to slavery.

Academic research finds that only one American nonprofit in nine has endowed funds.[2] Most small and midsized nonprofit organizations – community colleges and local hospitals, social service agencies, arts and culture organizations, houses of worship, environmental advocates – have little or no endowment. These organizations have survived decreases in federal, state, and local governmental support for many core programs. They have experienced the changing interests of grantmaking foundations, receding support from local corporations taken over by out-of-town interests, the concentration of wealth and therefore greater reliance on donations from a diminishing percentage of households, economic headwinds, and the changing philanthropic values of new generations. In other settings, they may even face headwinds from charity regulators who may take a dim view of "tying up monies unnecessarily," as the Charity Commission in the United Kingdom had once stated. These are the organizations that can benefit most from this book.

> Only one American nonprofit in nine has endowed funds.

Although an endowment is not the panacea that many boards of directors hope for, it can provide a degree of certainty in projecting funding levels when the economy is uncertain and ensure a wellspring of resources for new programs and innovations in prosperous years.

Defining Endowment

The term "endowment" may be used informally to represent a variety of funds with several different specific definitions. Endowment and its various types must be understood to develop an effective charitable giving or financial management approach. Table 1-1 helps clarify what endowments are (and aren't).

Endowment is a broad term that is often used to describe the total of one or more endowed funds. An endowed fund is a charitable gift established in perpetuity in which the principal is invested for total return (both income and appreciation) and a small portion of the fund's total value (usually 4% to 6%) is paid out, generally on an annual basis (see more about total return in Chapter 5). The *beginning principal* is the value of the asset that was contributed by the donor; the *income* is the earnings produced by the principal;

TABLE 1-1 Endowments Explained

Endowments...	
. . . Are	**. . . Are Not**
Permanent assets, invested for growth and appreciation	A "rainy day fund"
A place to hold funds permanently	A temporary place to deposit a windfall
Invested for total return, distributing from both income and appreciation	Limited to distributions of interest earned
A source of reliable, stable support based on long-term investment growth	Volatile due to annual fluctuations in the market
Invested to produce an annual draw in support of the mission	Long-term savings, rarely deployed to support programs
Long-term assets that ensure future financial resilience	Short-term solutions to fix today's structural deficit

and *appreciation* (or *depreciation*) is the gain (or loss) in the value of the principal since it was contributed. An organization may have several endowed funds, established by one or more donors and for one or more purposes, in its endowment.

Merriam-Webster's Collegiate Dictionary (11th edition)[3] states that to endow is "to furnish with an income . . . providing for the continuing support or maintenance" of an organization. An endowment, then, is simply a pool of funds that is invested to provide ongoing financial resources to fuel the pursuit of a cause. Both state laws and generally accepted accounting principles (GAAP) apply to endowments in the United States. Governmental bodies in other jurisdictions may also regulate endowments and the fundraising efforts to achieve them.

Governing the Management of Endowment Funds

The Uniform Prudent Management of Institutional Funds Act (UPMIFA)[4] governs endowment spending by charitable corporations and some trusts in the United States. Almost every state and territory has enacted some form of the law since it was updated in 2006. An earlier version of the law, first enacted in 1972, lacked the word "prudent," which was added in 2006 to acknowledge the stresses placed on endowments during the Great Recession, when market forces meant that some endowments dipped below the value of the original gift and therefore could not provide *any* resources to help navigate very challenging economic circumstances.

UMIFA itself represented progress, which was revolutionary for the time since prevailing wisdom prior to 1972 limited investment opportunities – and therefore growth – of endowments. At that time, Janne G. Gallagher, senior counsel for the Council on Foundations, said:

> Before UMIFA, charity managers often believed that they could not rely on outside experts for investment advice and that investments had to be limited to the safest possible vehicles – cash, government bonds, and, perhaps, a few blue-chip stocks. UMIFA not only freed charity managers to delegate investment decisions to outside managers, but also allowed them to invest assets for long-term growth, not just current yields . . . Because UMIFA lets charity managers invest for growth, not just income, UMIFA also allows them to take that growth into account in making spending decisions for the endowed funds.[5]

UMIFA defined an endowment fund as "an institutional fund, or any part thereof, not wholly expendable on a current basis under the terms of the donor's gift agreement."[4]

The updated U**P**MIFA creates an even sounder and more uniform approach to charitable investments based on the "prudent-person rule." It permits a wider range of investment options and emphasizes the perpetuation of the original purchasing power of the fund (not just the original dollars). It also limits spending to 7% of the funds' total value unless the board can show that larger expenditures meet standards of prudence, and a formal vote to make a larger draw must be recorded in the board meeting minutes. See Chapter 5 for more information about setting a prudent endowment spending policy. The Financial Accounting Standards Board (FASB) also interprets UPMIFA to require that boards adopt specific disclosures to ensure the transparency of endowment management and expenditures.

From the Field: UPMIFA

UPMIFA has been enacted in 49 states (Pennsylvania being the only exception as of 2024). It provides guidance on the investment of endowment funds informed by modern portfolio theory. A charity is required to make decisions about each asset in the context of the entire portfolio of investments, as part of an overall investment strategy.

An organization determines prudent spending levels for its endowment (see Chapter 5) based on seven factors:

- The duration and preservation of the endowment fund
- The purposes of the institution and the endowment fund
- General economic conditions
- The possible effect of inflation or deflation
- The expected total return from income and the appreciation of investments
- Other resources of the institution, and
- The investment policy of the institution

The first of the seven factors looks at the duration of the endowment fund, which in most cases is perpetual. This requires the institution to consider generational equity: the institution must attempt to ensure that the purchasing power of the endowment fund, after inflation (factor 4), will be maintained for future generations served by the institution. But the spending must also fit within the expected total investment return (factor 5).

—Joe Bull, Philanthropy Advisory Counsel, LLC

Types of Endowments

FASB has identified three types of endowments.

- **True endowment** (also called permanent endowment). This is the type that is subject to UPMIFA in most states. True endowments are created when a donor has stated that their gift is to be held permanently as an endowment, either for general purposes or for specific uses as identified in a written gift agreement. Therefore, true endowments are always "restricted as to time" (that is, *permanently*), and sometimes "restricted as to use" (that is, intended for a specific purpose such as funding a medical clinic, art acquisition, or scholarships). True endowments are documented in a legally enforceable written agreement between the donor and the recipient organization, signed by representatives of both parties. FASB requires that the original value of the gift(s) that created a permanent endowment must be maintained, not used up, expended, or otherwise exhausted, which means that no draw can be taken if a fund's investments perform poorly, and it dips below the value of the original contribution. On the balance sheet, true endowment is classified as *permanently restricted net assets*.

  To complement the restriction as to time (that is, permanent), some donors also restrict the use of the funds drawn from the endowment, Common restrictions on the purpose of an endowment include scholarships, programmatic funds, funds endowing a position (such as curator or professor), or funds to maintain facilities (especially if the facility was named in honor of the donor).
- **Quasi-endowment** is sometimes called "board designated endowment," although the latter can cause confusion when board members misinterpret it to mean that the proceeds can be spent at the board's whim. Year-to-year, the board may elect to place excess revenue, windfalls, or unrestricted gifts into the quasi-endowment. Because a future board could vote to remove all or a part of the quasi-endowment's principal, it is not

true endowment. A board-designated endowment is classified as *unrestricted net assets*, and its principal may be spent under FASB guidelines, although to do so creates peril for any organization, as described in the sidebar.

In Practice: Don't Eat Your Seed Corn

While boards can technically invade the principal of quasi-endowments, such a decision risks undermining the confidence of future donors. Endowed funds are publicly reported on Schedule D of an organization's informational tax return, IRS 990. Experienced donors often turn to an organization's 990 when they are considering a significant contribution, especially a gift to the endowment. The IRS 990 may appear to be a dry recitation of institutional financials; it actually portrays the story of the organization's prudent – or imprudent – allocation of resources in pursuit of its mission.

Consider the following Schedule D of a foster care and youth services agency in Kentucky, and the hesitancy a donor might feel when asked to add to that agency's endowment:[6]

Part V Endowment Funds.
Complete if the organization answered "Yes" on Form 990, Part IV, line 10.

	(a) Current year	(b) Prior year	(c) Two years back	(d) Three years back	(e) Four years back
1a Beginning of year balance	20,647,158	19,875,700	22,357,190	21,062,612	19,812,313
b Contributions	1,575,574	6,975	44,000	358,049	161,676
c Net investment earnings, gains, and losses	6,747,683	796,483	2,138,193	1,635,039	2,392,668
d Grants or scholarships					
e Other expenditures for facilities and programs	1,598,036	32,000	4,663,683	698,510	1,304,045
f Administrative expenses					
g End of year balance	27,372,379	20,647,158	19,875,700	22,357,190	21,062,612

2 Provide the estimated percentage of the current year end balance (line 1g, column (a)) held as:
a Board designated or quasiendowment ▶ 89.080 %
b Permanent endowment ▶ 10.920 %
c Term endowment ▶
The percentages on lines 2a, 2b, and 2c should equal 100%.

Although the board was permitted to take the extraordinary draw of $4.6 million illustrated in Row E, Column C – amounting to almost 21% of the funds' balance at the beginning of the year – the prudent donor may be concerned about board discipline regarding future draws from the endowment. Or, as we say in the heartland, it appears that the organization is "eating their seed corn," even though they might actually be spending wisely on growth initiatives. An IRS 990 does not tell the full story, so donors may jump to their own conclusions.

If there is a likelihood that today's excess funds might be spent for special initiatives in the future, an organization is wiser to place them in strategic reserves (see Chapter 6) and avoid clouding the picture of an otherwise well-managed endowment.

- **Term endowment** is less common. A term endowment is created for a set period of years or until a future event, at which time the principal can be expended. For example, a ballet company created a term endowment, attracted several donors to support the initiative, and expended the funds for the creation of new works over 10 years leading to a milestone anniversary celebration. In another instance, a donor created an endowment for a reproductive rights organization and required that spending limits be lifted if the funds were ever needed to mount a legal challenge to the termination of *Roe v. Wade* (as has since occurred). Once the term runs out or the event occurs, the principal may be expended. The portion of term endowment that must be maintained for the specific term is classified by FASB as *temporarily restricted net assets*.

The various endowed funds in an organization's endowment must be labeled as one of these three types for accounting and reporting purposes, although they can be combined for investment purposes (see Chapter 5). Each of these types might be drawn for general uses or designated to fund specific purposes as defined by the donors such as scholarships, education programs, professorships and other staff positions, research, facility maintenance, art acquisition, and so on. It is incumbent upon the organization to ensure that a donor's designated purpose for the use of the endowment will advance the cause and remain "evergreen," and that investment practices balance growth and income with the liquidity required for annual distributions.

The Benefits of Endowment

Endowments can offer benefits to the organization and those it serves, to supporters, and to the development professional. If an organization has the wherewithal to create an endowment, it conveys permanence and credibility. Endowment provides fundraising staff the opportunity to present options to donors and demonstrates that the organization is prepared for and worthy of long-term investment in service to its mission.

For the Organization

Education, health, economic opportunity, justice, arts and culture – virtually any cause can be emboldened when its nonprofit champions have financial stability provided by ample endowment. For organizations and the communities they serve, the benefits of an endowment that amplifies the mission can include:

- **Expanded sources of income.** Because a permanent endowment is an invested pool of funds that provide a reliable source of income in perpetuity, the organization can count on annual distributions for its charitable work. With appropriate investment and spending policies (see Chapter 5), an endowment's purchasing power is preserved, even in the face of market fluctuations or inflation. An endowment of $1 million that provides $45,000 each year to fuel an early learning program can be designed to provide sufficient inflation-adjusted funding for that same program in 20 or 40 years. At the end of approximately 22 years, the endowment draws will have returned 100% of the original philanthropic investment, yet the proceeds will continue forever.

- **Stability and credibility.** A well-managed endowment sends a message of planned and prudent long-term fiscal responsibility, enhancing the reputation of the organization. The fear that a large endowment will deter giving is a myth: organizations with healthy endowments are attractive to donors for all the reasons explored in Chapters 7 and 8.
- **A complement to annual fundraising.** Far from a deterrent, organizations with healthy endowments are more likely to win favor with donors, especially those who view themselves as philanthropic investors. Donors are reassured when an organization can draw funds from an endowment to add to today's donations, ensuring that programs and activities are fully funded.
- **Ability to attract talent.** When endowment funds are used to endow a chair or position, for example, a portion of the funding might increase the compensation, provide research stipends, or enhance professional development enabling the organization to attract the strongest talent. Endowed positions often confer distinction. A portion of the funding might also supplant the ongoing costs for the position, enhancing budget resources across the organization.
- **Independence.** Endowments designated for specific purposes can provide a measure of independence from economic, governmental, and social forces. For example, an art museum was in danger of losing its photography curator when the board resolved to streamline the curatorial roles and emphasize education programs instead. The curatorial position survived when a concerned donor established an endowment that was sufficient to cover the program, which continues to delight patrons with inspiring exhibitions and elevate the museum's national stature.
- **Flexibility for management.** Endowments offer options to meet new challenges by providing greater financial flexibility

and self-sustaining income streams. Endowments can augment uncertain income sources and provide a more balanced revenue mix; they can strengthen income statements and balance sheets, creating leverage for bond-rating capacity and borrowing.

- **Expanded strategies for campaigns.** A church-related organization was planning a statewide campaign for $8 million. Nearly everyone expected a certain individual to lead the campaign and provide a $1 million gift; but he explained that he lacked the liquidity for such a gift and felt he must decline the leadership role. Yet, because the campaign goal included $3 million to build endowment, he was able to make a $250,000 pledge for the capital project and an irrevocable deferred gift of $750,000 for endowment (see more about gift vehicles in Chapter 8). With the $1 million commitment in place, he ably led a successful campaign.

For the Donor

Donors are motivated to give to endowment for many reasons, whether they are creating a new fund or adding to an existing one. An organization must be prepared to articulate these benefits to prospective donors and their financial and legal advisors.

- **Perpetuates the donor's values and priorities.** An endowment gift is a powerful reflection of the donor's values and can perpetuate them in the wake of changing circumstances, providing assurance that programs that are important to the donor will survive. A small group of donors created an endowed fund to sustain programs in the humanities when their tuition-reliant *alma mater* faced significant financial headwinds.

  However, designated endowments must also allow sufficient flexibility to adapt to change. For example, when the polio vaccine eradicated the disease throughout the industrialized world, many hospitals sought to redefine endowed funds that were created in the early 1960s to provide lifetime care to people with polio.

- **Creates an enduring legacy.** Because an endowment gift will be invested permanently, it can serve as a permanent tribute to the donor, extend their values, and inspire future generations of donors. It can offer the donor an opportunity to be linked perpetually to a cause that was important to them during their lifetime.
- **Elevates the ability to give.** Many donors can make a larger gift through planned giving vehicles and designate it for endowment than they dreamed possible. An endowment gift is often a donor's final and largest gift to a cause they valued, because it is fulfilled after the donor's lifetime. For donors, the ability to devote the assets they accumulated over their lifetime in a final act of everlasting generosity can be extremely gratifying. A couple in San Diego worried they might not have sufficient resources to enshrine a treasured family member's memory, until they learned that they could combine a current pledge with a promise of a portion of their estate to "name" a room at the local Ronald McDonald House.
- **Ensures ongoing support.** An endowment gift gives an opportunity for donors to perpetuate their annual support. For example, the donor who consistently gives $250 to a cause can sustain those annual gifts by adding $5,500 to the organization's endowment fund. This can provide great comfort and peace of mind.
- **Allows incremental funding.** Many donors fear depleting their assets during their lifetimes, yet they want to see the impact that an enduring gift can create. They may establish an endowment gift through their estate, and then make annual gifts that represent the amount that would be distributed if the fund had already been established. This arrangement is sometimes called a "living endowment" or "virtual endowment." In this way, donors experience both the joy of giving and the reassurance that their eventual endowment will achieve the impact they desire.
- **Provides a lifetime income.** Some kinds of deferred gifts, such as charitable gift annuities, pay income to the donor for life with the remainder going into the organization's endowment after

the donor's passing. See Chapter 8 for an explanation of these gifts, the opportunity to provide stable income during a donor's lifetime, and the risks that must be managed by the organization.

- **Alleviates burdens.** Some donors, particularly as they age, are uneasy with managing their assets and making investment decisions. A split-interest gift (see Chapter 8) enables the donor to receive regular income for life without the burden or cost of managing investments.
- **Permits additions at a later time.** An endowment fund can be established with an initial gift and the principal increased over time through investment growth and additional gifts from the donor or their friends and family. This can be a handy vehicle for people, especially family members, who wish to make meaningful gifts to someone who seemingly already has everything they could need or want. It can also allow a donor to "grow into" an endowed fund: such as the young alumni couple who made an initial gift to endow a program in the College of Arts and Sciences at the University of Tennessee (including matching gifts from each of their employers), enabling them to establish the fund at an early age, add to it over several years, and eventually fully fund the Justin and Amber Cutler Endowed Faculty Award.

In Practice: Endowing a Cause versus an Organization

In recent data, donors have shown more loyalty to a cause such as pediatric health or conservation than to a single organization. For them, selecting a single organization to receive their endowment gift(s) may be like choosing a favorite child, while dividing assets among a number of organizations may dilute the impact of an eventual endowment payout.

There may be alternatives. A local community foundation may have affinity funds. For example, the Columbus (OH) Foundation offers donors Focus Funds including a collection of Green Funds, and a Legacy Fund supporting LGBTQ+-serving organizations. Some national/global regranting organizations with a specific focus also offer the opportunity to build endowments focused on specific causes. An endowed fund at the Global Fund for Women distributes its draws in grants to women-led and woman/girl-serving organizations around the world; the National Christian Foundation focuses primarily on supporting Christian causes; while the National Jewish Endowment does the same for that faith tradition.

For Fundraisers and Their Colleagues

Endowments are built by people: the donors who give and the staff and volunteers who work to engage and inspire them. Typically, a fundraising professional coordinates the effort to establish and increase endowment, working closely with financial administrators, board members and other volunteers, everyone on the fundraising team, and, ultimately, the entire staff of the organization. All these team members are more likely to contribute to success if they understand the advantages of an endowment from their point of view.

Endowments are built by people: the donors who give and the staff and volunteers who work to engage and inspire them.

- **Offers options to attract, retain, and inspire donors.** The fundraising team will want a full array of giving opportunities to discuss with donors. Increasingly, sophisticated donors expect endowment to be one of those options for two reasons: because it allows them to focus on the future and because they can make gifts out of assets rather than current earnings. As a result, conversations with donors can be a much richer, mutually rewarding experience.

- **Helps to realize growing expectations.** Organizational budgets increase over time for many reasons: to meet growing needs, to achieve higher aspirations, to allow for inflation, and to retain and reward valuable employees. Not all growth can be accommodated with continual increases in annual fundraising or earned revenue. An endowment can absorb some of the ever-increasing revenue goals, especially since a well-managed endowment fund keeps pace with inflation.
- **Builds a pipeline of current and future gifts.** Donors who support endowment – through current or deferred gifts – are more likely to support an organization's current needs, whether the annual operating fund, special projects, or a capital campaign. It's only logical that someone who has a stake in the organization's future is motivated to ensure that it has a robust present. In addition, some donors may be inspired to establish a deferred gift to endow a program in the future, and pledge current, ongoing support so that they can see the impact of the program now (a "living" or "virtual" endowment as described earlier).
- **Creates a donor-centered discipline.** Too often, the fundraising team is asked to focus on the "needs" of the organization. Every organization covets unrestricted gifts to fund current operations, but donors usually prefer to target their giving where they can witness its direct benefits for the community – now, and into the future. Endowment fundraising helps leadership and fundraising staff develop a donor-centered discipline with an understanding of donors' intellectual, psychological, emotional, and financial needs. The organization must be willing to be as visionary as the donor, perhaps taking risks in programmatic and financial areas. The donor determines the timing, size,

and form of the gift. Donors' dreams and donors' money drive giving, inspired by the vision of the organizations and the needs they see in the community.

Endowment Criticisms and Pitfalls

The benefits of endowment for a cause, the community it serves, and its donors and staff may be attractive, but there can also be problems and critiques. The criticism is not new: in an essay for *The Atlantic* in May 1929, Julius Rosenwald (founder of Sears, Roebuck, and Co.) brought "attention to the underlying question of whether perpetual endowments are desirable." New voices – such as Justice Funders and proponents of Community Centric Fundraising – question the underlying premise of endowments, pointing out that they are often created by donors whose wealth can be traced to extractive industries or exploitational practices, and the paradox of large assets set aside for the future rather than deployed to do good today. Criticisms fall into several general categories:

- **Endowments can become obsolete**, like those that were established at hospitals to ensure perpetual care for polio patients. When polio was effectively eradicated in the industrialized world, hospital administrators were required to march to each state's equivalent of "Widows and Orphans Court" to change the terms of the funds if the donors or their heirs could not be consulted.
- **Because endowments are perpetual, they often reflect the legal and social mores of the period when they were established**. This can be problematic when the law and society change. For example, many endowed scholarships at universities across the country were established to ensure that students who face barriers because of race can have access to a higher education, yet a Supreme Court ruling in 2023 limits when and how colleges can consider race as a factor in the admissions process. Endowments may also be devoted to activities that the organization no

longer wishes to be a part of, especially if those activities benefit people with privilege at the expense of others. Consider a fund that requires history to be taught in a limited way, or a partial scholarship that still requires the student's family to contribute a considerable amount of tuition. For these reasons, organizations with large endowments can become the target of critics.

- **Endowed funds can become insufficient to fulfill donors'** ***wishes*** if growth does not keep pace with rising costs. That's what led to controversy at The Ohio State University. Michael Moritz established an endowment in 2001 with a gift of $30.3 million, but by 2017 the fund balance was just $21.9 million.[7] A variety of reasons were cited: investment losses, the imposition of a 1% management fee, another larger fee to fuel other fundraising activities, and the fact that the donor's requirements to fund multiple faculty positions, scholarships, and other activities placed a greater funding burden than the endowment could reasonably meet. The donor's heirs sued the university, resulting in unflattering attention from the media and probes by lawmakers.
- **Donors may be attracted to establish endowment for only fashionable activities** – like acquiring new works for an art museum – while neglecting everyday needs such as staff salaries and utility costs, creating an imbalance in funding. And donors may have unrealistic expectations for the amount of control they will maintain over the use of the endowment draw, which can create problems with the organization, its accrediting body, and the IRS.
- **Endowments add a layer of complexity and expense** to an organization's financial management. Even if management is delegated to a third party, such as the local community foundation, an organization still has to deal with accounting standards and legal requirements in how they invest, classify, report, and spend endowed funds.
- While endowments generally do not "crowd out" everyday donors' ongoing support for an organization, **some institutions' endowments have grown so large that donors begin to question**

the impact of their gifts. They may be uncomfortable with the inequity of continued support of institutions that are seen as "wealthy" while other worthwhile causes remain under-funded. Critics denounce them for "hoarding." With endowments exceeding $25 billion, universities such as Harvard, Yale, Stanford, and Princeton have had to justify continued fundraising efforts. In a few cases, this has led to innovative risk-taking, such as the abolition of tuition payments for students who fall below a relatively generous income threshold.

- **Some cultures and/or religions eschew endowment.** For example, when an evangelical couple was asked to support a fund to endow missions, the couple referenced their conviction that the need would be negated by the "second coming," which they considered imminent.
- **There is growing recognition that some endowments were created by bad actors whose business practices created wealth at the expense of the common good**, whether historic slave holders and "robber barons" or more recent pharmaceutical heirs.
- Beyond problematic donors, there is **a movement that questions the very premise of endowments.** Justice Funders' "Resonance Framework for Philanthropic Transformation" is rooted in the "equitable redistribution of resources and power," observing that: "Many might say that, by definition, philanthropy is about redistributing resources. Yet to truly embody this principle, philanthropy must move far beyond the 5 percent payout requirements for grants and distribute ALL of its power and resources. This includes spending down one's endowment . . ."[8] Regardless of the merit (or lack thereof) of this criticism, it faces hurdles due to state laws restricting the amount that can be drawn from an endowed fund, generally accepted accounting principles, and the legal enforceability of written agreements between donors to an endowed fund and the organization that holds it.

These challenges point to the inflexibility of endowment, especially if a donor places onerous restrictions or an organization does not invest wisely. For these reasons, some younger donors – especially those who created their own wealth from entrepreneurial activities – reject endowments altogether or favor the nimbleness of strategic reserves (see Chapter 6).

A (Very) Brief History of Endowments

Endowments and their functional equivalents are cited in literature from ancient Greece and Rome. The Roman Emperor Marcus Aurelius created four endowed chairs in AD 176, one for each of the major schools of philosophy.[9] There is a similar concept in Islamic law called *waqf* describing a donation of a building, land, or other assets with no intention of reclaiming them. References from the ninth and tenth centuries tell of a pond and orchard in Egypt designated for the feeding of the poor. Today, the largest waqf is in Saudi Arabia and holds $11 billion. Many other cultures have a concept equivalent to endowment in their ancient traditions, ranging from the Tang Dynasty in China (618-907 CE) that endowed Buddhist monasteries, to West African empires that provided land grants for cultural endeavors.

In Support of Education

Like today, many early endowments supported education. In eighth century Turkey, wealthy princes endowed academic chairs and established funds for residential students. In the ninth century, rajas endowed schools to promote learning leading to the rise of Indian sciences, mathematics, and astronomy. At the same time in the Muslim world, rulers and princes provided funds to build and maintain libraries.[10]

Among the many advancements during the Renaissance Age in Europe, endowments emerged to support the modern university system. Lady Margaret Beaufort, Countess of Richmond and grandmother to Henry VIII, endowed chairs in divinity at the universities of Oxford and Cambridge, still in effect today.[11] Henry Lucas, a mathematics professor, created the Lucasian Chair at Oxford in 1663 with a gift of his library. One of the first to be appointed to the position was Isaac Newton; one of the most recent was Stephen Hawking.[12]

At about that same time, a young minister named John Harvard died of tuberculosis (or "consumption" as it was then called). Harvard was the last surviving member of a prosperous family from Surrey, England.[13] He left his entire library and half of his estate to a new institution designed to educate clergy in New England. His bequest not only immortalized his name: it also laid the foundation for the largest university endowment in the world.

Early endowments such as Harvard's grew quietly and slowly over succeeding decades through lotteries, subscription programs, and the episodic solicitation of wealthy individuals. Endowment growth accelerated with the advent of more organized fundraising campaigns. As Professor Bruce Kimball posted on histphil.org in June 2017:

> The first comprehensive, multi-year, mass fundraising drive, … was . . . conducted by Harvard University between 1915 and 1925. Considered path-breaking at the time, the Harvard Endowment Fund (HEF) drive established many new fundraising policies and practices that are now taken for granted, but were contested, negotiated, and finally adopted, to become the accepted customs of conducting such campaigns.[13]

By the early 1920s, at least 75 other colleges and universities were following the Harvard example, which subsequently was adopted widely across the nonprofit sector to conduct campaigns for capital, endowment, and programmatic support.

Endowment became more widely achievable when the original "Leave a Legacy®" program was created at Diana Newman's kitchen table in the early 1990s. Then the vice president of The Columbus Foundation, she worked alongside Steve Rish, who was then head of corporate philanthropy at the insurance company, Nationwide. The public awareness campaign they created spread across America as a program of the National Association of Charitable Gift Planners. It continues to provide resources that any nonprofit organization can use to encourage donors to include charitable bequests to benefit the causes they care about.

In 2008, the place of endowment was further codified when the IRS updated Form 990 (the informational tax return required of most nonprofits) and added Schedule D to supplement the information on their tax return with five years of data on endowment assets, fees, new contributions, and grants paid. The resulting transparency has allowed a more thorough analysis of endowments.

Endowments have extended far beyond their original roots in religion and learning. The Metropolitan Museum of Art, for example, began its General Endowment Fund by a motion of the board in May 1905 and held assets of $302,115.29 by the end of that year. Despite growing to almost $3 billion by the end of FY 2022, the Met's repeated deficit budgets have been widely reported. Shriners Hospitals for Children started an endowment shortly after being established in the early 1920s; its endowment was valued at $8.8 billion on its 2021 IRS 990, Schedule D. Sizeable endowments are still held by churches (Trinity Church, Wall Street at $9.9 billion), now joined by conservation organizations (The Nature Conservancy at $7.9 billion), and even the Hong Kong Jockey Club (at $8.6 billion), which announced a partnership with the Rockefeller Foundation to "bolster public health across the globe and protect some of the most vulnerable people from the impacts of climate change" according to a December 2023 press release. The largest endowment is thought to be held at Ensign Peak Advisors, which manages the assets of The Church of Jesus Christ of the Latter-Day Saints and holds $124 billion.[14]

Endowments Today

Today, endowments around the world hold more than a trillion dollars ($US) in assets. Yet, as with other philanthropic and economic models, endowment resources are inequitably distributed. Unlike Harvard or Yale, the typical HBCU has less than $50 million in its endowment, which produces a humble annual draw of just $2.25 million (although a 2024 grant from the Lilly Endowment will provide an additional $5 million to each HBCU's endowment with the requirement that they match it with $5 million in gifts from others). Beyond higher education, only one nonprofit organization in nine in America benefits from endowed funds.

The concentration of endowment holdings in the United States among a few large universities may be one reason that higher education endowments were singled out in the 2018 Tax Cuts and Jobs Act, which placed an excise tax on net investment income of any university's endowment that exceeded $500,000 per student. It is thought that fewer than 50 institutions were affected, with tax liabilities ranging from less than $250,000 to more than $50 million. And there have been more recent proposals to increase the tax and expand the institutions that would be affected.

How much endowment is "enough" for any given cause? For many, the answer aligns with the thoughts of American actress and comedian Amy Poehler: "It doesn't matter how much you get, you are always left wanting more." An endowment must grow extremely large before it begins to attract negative attention, trigger a tax liability, or diminish the zeal of current donors, so "too much" is rarely a concern.

There are a number of ways to determine "enough," such as benchmarking against others in the same sector or identifying specific vulnerable activities that could be stabilized through endowment funding: for example, a senior living community's residents created an endowed fund of $750,000 spinning off annual draws of $32,000 to ensure that there would always be a part-time chaplain. Often, endowment milestones are adopted as part of a strategic planning process or integrated into the overall goal of a combined annual-capital campaign.

Endowments Are Not for Every Cause

A fledgling water conservation organization gained cachet when a respected funder provided a sizeable start-up grant. Their 20-year plan to transform the region's waterways was compelling. A small leadership team assembled and developed a list of all the capacities that needed to be established, including fundraising. As they engaged donors, they had a singular focus: "help us build an endowment so that we never have to ask you for money again." They failed, and within six months the organization fell out of favor. Why did the organization's appeal for endowment funding fail to connect? Consider:

Donors to endowment are usually long-time supporters of a cause; they trust the nonprofit organization deeply because it has shown a consistent ability to deliver impact and nurture relationships. The water conservation group had not yet celebrated its first anniversary.

Board members were still being recruited and many had yet to make their first gift to the organization. The gifts that had been received were devoted to current operations. Many endowment gifts come from an organization's board members; outside donors expect to see the board demonstrating their commitment and confidence as they consider their own gift.

To warrant an endowment, an organization needs to exhibit its ability to manage finances. This organization had never balanced a budget or produced an audited financial statement.

The energy devoted to building endowment distracted the organization from pursuit of annual or multi-year support that could have allowed them to launch their work, establish a track record of success, and expand their capacity, eventually becoming endowment-ready.

The promise to "never ask donors for money again" struck many as both disingenuous and wrong-headed. After all, the annual engagement of supporters is one mechanism for maintaining an organization's connection to and accountability with the community.

Endowments are intended to be perpetual, yet this group did not have a clear vision for the role it would play once the 20-year plan was implemented.

Although this was an extreme case, it demonstrates many of the reasons that it is not prudent for every nonprofit to pursue endowment. Success in building endowment requires several factors, including a demonstration of long-term impact, established policies, stable financial management, and board commitment (as discussed in the upcoming chapters). For some organizations, endowments can even be antithetical to the cause, especially those that have a short-term mission or serve only immediate needs.

Summary and Next Steps

A sizeable endowment is not for every organization, nor does it guarantee the resilience of a cause (as evidenced by the perennial financial struggles of several organizations with sizeable endowments). It is just one ingredient to be complemented with other strengths: a relevant mission, impactful programs, prudent financial management such as reserves and – most importantly – a community of people who are steadfast in their fidelity to that cause. With a foundational understanding of endowments, an organization must evaluate whether to devote its resources to endowment building. The upcoming chapter explores the ingredients necessary for building endowment, provides resources and knowledge to assess readiness, and helps in determining the endowment-building strategy that best serves an organization and its donors.

Notes

1. "2022 Top 10 HBCU Endowments," *HBCU Money*, February 21, 2023, https://hbcumoney.com/2023/02/21/hbcu-moneys-2022-top-10-hbcu-endowments.
2. Andrew Lo, Egor Matveyev, and Stefan Zeume, "The Risk, Reward, and Asset Allocation of Nonprofit Endowment Funds," in *The Summer Institute of Finance* (Shangai, China, 2021), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3560240.
3. "Endow," in *Merriam-Webster's Collegiate Dictionary, 11th Ed.* (Springfield, MA: Merriam-Webster, Inc., 2020).
4. Uniform Laws Commission, "Prudent Management of Institutional Funds Act - Uniform Law Commission," www.uniformlaws.org, 2006, https://www.uniformlaws.org/committees/community-home?CommunityKey=043b9067-bc2c-46b7-8436-07c9054064a3.
5. Janne Gallagher, "Legal Briefs," *Foundation News and Commentary* 44, no. 2 (March 2003).
6. www.guidestar.org (Candid), accessed October 7, 2023, https://www.guidestar.org/profile/61-0445834.
7. Tom Lawrence, "Ohio State Benefactor's Family Seeing Red over Mishandling of $30.3 Million Endowment," *Legal Newsline*, August 19, 2020, https://legalnewsline.com/stories/548961543-ohio-state-benefactor-s-family-seeing-red-over-mishandling-of-30-3-million-endowment.
8. "Guiding Values & Principles," Justice Funders, accessed March 5, 2024, https://justicefunders.org/resonance/guiding-values-principles/.
9. Dorothea Frede, "Alexander of Aphrodisias," *Stanford Encyclopedia of Philosophy*, October 13, 2003.
10. "Lady Margaret's 500 Year Legacy" (Wayback Machine: University of Cambridge, May 16, 2007).
11. R Robert Bruen, "A Brief History of the Lucasian Professorship of Mathematics" (Cambridge University, May 1995), http://www.lucasianchair.org.
12. Conrad Edwick Wright, "John Harvard," *Harvard Magazine*, January 1, 2000, https://www.harvardmagazine.com/2000/01/john-harvard-html.

13. Bruce Kimball, "The Uneasy Convergence of Elite and Mass Fundraising in Higher Ed: The Harvard Endowment Fund Drive, 1915-1925," July 27, 2018, https://histphil.org/2018/07/27/the-uneasy-convergence-of-elite-and-mass-fundraising-in-higher-ed-the-harvard-endowment-fund-drive-1915-1925/.
14. Aran Ali and Joyce Ma, "Ranked: The World's Top 50 Endowment Funds," Visual Capitalist, May 16, 2023, https://www.visualcapitalist.com.