

# *Endowments: How to get started*

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Endowments may be set up by individuals wishing to fund a specific interest of a not for profit. Setting up an endowment for a not for profit is an effective way of securing the financial future of the organisation. The process, albeit not overly complex, does command expert legal advice.

## **Which organisations are suitable for endowment development?**

Endowments are suitable for organisations that possess:

- A strong track record of service to the community
- Strong leadership, an effective governing body and committed staff members
- Financial stability and accountability
- A diverse range of donors
- Ability to undertake in long-term fundraising activity

## **Why should you consider setting up an endowment?**

There are plenty of reasons why you could set up an endowment, but the most common is for financial stability. Quite often, small and new not for profits focus on the short term cash flow of the organisation – rather than taking a long term strategic view. Endowments can assist not for profits in moving away from a short term approach and into one that is long term.

Another reason why endowments are common for not for profits is that they can help to diversify the income of the organisation, to reduce financial dependency and risk of failure.

The donors of a not for profit can find comfort and reassurance in the fact that the organisation they donate to undertakes forward planning. This increases the likelihood that the organisation will survive the years to come. Donors may be given the option of contributing a gift that will continue to *'give'* in the future, or to simply contribute financially to the fund day to day operations.

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### **How to set up an endowment**

An endowment can be started with even the smallest amount of money, but building an endowment is a long-term strategy. It will take rigorous efforts to cultivate donors over a sustained period of time, given that many endowments gifts are activated upon the passing of a donor.

Before planning your endowment growth strategy, it is wise to have a target amount to encourage ongoing focus. It has been recommended that you have at least three times your annual operating budget as a minimum for your end goal.

When setting up an endowment, you will need to appoint a committee. In most instances, this is the Board of the not for profit. Your Board will be required to set up some rules of the endowment.

These will include:

- The name for the endowment
- Restrictions around endowment usage
- Guidelines around how much interest may be used annually
- Extraordinary circumstances whereby the endowment principal may be accessed
- Whether the endowment should be set up as part of the not for profit, or separately as its own entity

### **Endowment building strategies**

Building an endowment is not an easy task therefore a comprehensive strategic plan should be implemented to achieve your endowment goals. Below are some strategies you will need to adopt:

- The appointment of a Committee to assist in planning and fundraising
- Implementation of an endowment building plan – including staff roles, strategy, investment policy, spending policy, gift acceptance policy, marketing plan and a donor recognition plan
- Regularly appeal for monetary or gift donations
- Encourage donors to include the not for profit in their will

*Whatever stage you are at, it is important to seek legal advice from philanthropy experts. Get in touch today to find out how Gridiger Lawyers can help you make your mark.*

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