

Endowments and More



Endowments and quasi-endowments help organizations establish long-term financial stability. This guide explains the basics; provides links to resources that address creating, managing, and fundraising for these funds; and describes the practices of 10 land trusts.

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Links to Resources

Creating an Endowment

[Endowments](#) (National Council of Nonprofits)

[Should Your Nonprofit Create an Endowment?](#) (Non-profit Quarterly)

[Five Steps to Starting an Endowment: Even Smaller Nonprofits Can](#) (Guidestar)

[How to Start an Endowment for Your Nonprofit](#) (The Balance)

[Endowments: Long-Term Funding for Nonprofits](#) (Wagenmaker & Oberly)

Managing an Endowment

[Five Best-Practice Investing Tips for Nonprofits](#) (First Republic Bank)

[Simple Investing for Nonprofits](#) (*The New York Times*)

[Best Practices for Managing Your Organization's Endowment Funds](#) (CBIZ)

[What It Takes to Manage an Endowment](#) (GT Reilly & Co.)

[Managing an Endowment: Three Key Principles](#) (Laird Norton)

[A Simple Approach to the Management of Endowments](#) (AllAboutAlpha)

Fundraising for an Endowment

[Successful Endowment Fundraising](#) (The Fundraising Authority)

[How and Why to Make Endowment Fundraising a Priority for Your Nonprofit](#) (The Balance)

[The Best Way to Raise Endowment Funds](#) (FiredUp Fundraising)

[Endowment Planning vs. Fundraising](#) (Guidestar)

[Endowment Funds Go on Forever, but an Endowment Campaign Should Not](#) (Raise-Funds)

The Basics

An endowment, roughly speaking, is a gift donated to a charitable organization to provide a *permanent* source of income to the organization. The donor makes the gift with the requirement that only the income from the investment of the gift may be spent by the organization; the gift itself—the principal—must remain intact to ensure that income from it can benefit the organization in perpetuity.

In addition to the prohibition on spending the principal, a donor may or may not choose to place restrictions on use of the endowment's income (e.g., it may only be used for stewardship of the organization's conservation holdings or to fund scholarships).

The law pertaining to endowments varies by state and changes over time. All states except Pennsylvania have adopted the [Uniform Prudent Management of Institutional Funds Act](#) in some form, but there can be substantial variation in what exactly was enacted. There is complexity, and legal counsel should be sought to ensure that a planned endowment will operate as intended.

Donor-Restricted vs. Board-Restricted Funds

Many land trust boards earmark funds to “stewardship endowment funds” or like-named financial accounts with the intention that these funds be treated by the organization in the same way as true endowments. These earmarked funds are often known as “quasi-endowments.”

While endowments are permanently restricted by the donor(s) to ensure their continued operation, the board restrictions and earmarks governing quasi-endowments are *not permanent*—they can easily be undone, usually by a simple majority vote.

If an organization wants a level of permanence for its earmarked funds that is akin to an endowment’s, it can achieve this by entrusting the funds—forever ceding control of them—to an outside entity such as a community foundation or trust. While this can ensure the principal of the fund will remain untouched and a perpetual flow of income to the organization, it also means there is no going back: the principal is forever off-limits to the organization.

Another factor to consider is control over investment decisions. When an outside entity holds a fund, it makes all the decisions about how to invest the money; with board-restricted funds, the organization makes the decisions (either directly or by hiring and overseeing an investment firm).

Ultimately, when deciding between board-restricted funds and endowments held by outside entities, organizations must weigh the value of permanence and hands-free maintenance against the value of long-term financial flexibility and control over investment decisions.

Survey of Land Trust Practices

This section reports in brief on the endowment practices of 10 Pennsylvania-based land trusts. It addresses funds permanently restricted by donors, those restricted by boards, and those entrusted to an outside entity. Below is a list of key takeaways from the land trusts surveyed:

- All have investment policies that their boards of directors use to govern and guide investments. Almost all boards have a finance or investment committee in charge of overseeing the land trust’s investments.
- Most have one organizational fund and multiple stewardship funds (either for a specific property or stewardship costs in general). In most cases, these funds are a mix of true endowments and quasi-endowments (see “Donor-Restricted vs. Board-Restricted Funds” above).
- Almost all land trusts that hold their own funds hire investment managers via an RFP process to invest and administer those funds. These managers are overseen by the land trusts’ boards or finance committees.
- Some land trusts hold their own funds, while others entrust their funds to an outside entity (most commonly a local community foundation). Some land trusts have a mix of both.

Berks Nature

Funds

Held by a community foundation:

- Fund for watershed stewardship.
- Fund for stewardship of a specific property.

Held by the land trust:

- Permanently restricted fund for general operations.
- Permanently restricted fund for stewardship and legal defense.
- Permanently restricted fund for community gardens.
- Permanently restricted fund for stewardship of specific property.
- Two permanently restricted funds for conservation and environmental education.
- Two permanently restricted funds for land protection and management.
- Board-restricted fund for trail stewardship.
- Two board-restricted funds for watershed management and restoration.
- Board-restricted fund for stewardship of a specific property.
- Board-restricted fund for education center.

Management

The land trust's finance committee develops investment policies to be adopted by the board and oversees the management of the funds by an outside firm. Currently the land trust is considering moving all permanently restricted funds to a community foundation and all board-restricted funds to a new investment manager.

Tips and Lessons Learned

From Executive Director Kim Murphy

"Have a fund agreement for every fund you create. Understand and be able to answer if the fund is board designated or donor designated. This is important because at one point we had to borrow from our board-restricted endowment (for about two months) and I was able to tell the board exactly what we had available in board-designated funds vs. donor-designated funds that we couldn't borrow from."

Brandywine Conservancy

Funds

Held by the land trust:

- Multiple permanently restricted funds for a variety of donor-specified purposes.
- Multiple board restricted funds.

Management

The fund is managed by an investment firm (hired through a vigorous RFP process) which is overseen by the land trust's investment committee in accordance with the board-adopted investment policy.

Tips and Lessons Learned

From Director of Development Kim Reynolds

"For those looking to start an endowment: donor cultivation is key, as you will need a large gift to spin off enough funds each year to actually have an impact on your organization's budget."

ClearWater Conservancy

Funds

Held by a community foundation:

- Fund for general operations.

Held by the land trust:

- Permanently restricted fund for projects in a specific watershed.
- Board-restricted fund for easement stewardship and legal contingencies.
- Board-restricted fund for stewardship of preserves.
- Two board-restricted funds for long-term general operations.

Management

The land trust's first fund is held by a community foundation; all funds established since are held by the land trust. The land trust currently has an RFP out for an investment-management firm, which will report to the land trust's finance and investment committee and invest the money based on the board-adopted investment policy.

Farm & Natural Lands Trust of York County

Funds

Held by the land trust:

- Board-restricted fund for general operations.
- Multiple permanently restricted funds for the stewardship of preserved properties.

Management

Both funds are managed by an investment firm which was selected through an RFP process. The land trust has a finance committee that oversees the investment manager in accordance with the board-adopted investment policy.

Tips and Lessons Learned

From Executive Director Sean Kenny

"Our board of directors decided against going the community foundation-route due to the lack of flexibility long term with the funds.

It's important to have qualified people as volunteers who understand investments, investment policies, and the need to continually change them."

Foundation for Sustainable Forests

Funds

Based on its business model, the land trust considers the timber value of the forests that it protects as its

version of an endowment (instead of money). It considers the net proceeds of periodic light timber harvests to be the interest that is drawn off of the principal. The land trust estimates that somewhere between 3,000 and 5,000 acres of protected forest would be a large enough "endowment" to cover its annual operating expenses.

Management

The land trust's forest manager makes the decisions about forest management based on what the forest needs, not based on what the budget needs. The land trust will not practice forestry that compromises the overall health of the forest, and will only agree to take on new protected lands if it has the capacity to adequately steward them.

Tips and Lessons Learned

From Executive Director Annie Socci

"The process of building our forest endowment is a long and difficult one. But, once established, we have created a self-sustaining model that will free us from the day-to-day worries of how we will meet our budget needs. It then frees up all grant-writing and fundraising efforts to be used towards new conservation projects."

Land Conservancy of Adams County

Funds

Held by the land trust:

- Permanently restricted fund established by the founders of the land trust.

Management

The land trust's board of directors is in charge of administering and investing the money, following the advice of the finance committee and in accordance with the board-adopted investment policy. Several members of the board have financial expertise, so the land trust has gotten by so far without hiring an investment manager. The land trust has not yet spent any of the investment income from the fund, instead choosing to let the fund grow so that it will produce more income when it is needed at a later date.

Lancaster County Conservancy

Funds

Held by a community foundation:

- Fund for maintenance on a specific preserve.
- Fund for maintenance on area preserves.
- Three funds for general operations.

Held by the land trust:

- Permanently restricted fund for maintenance on area preserves.
- Permanently restricted fund for monitoring a specific easement.

Management

The funds held by the land trust are managed by outside investment managers under oversight of the board of directors. Each fund has its own guidelines (based on decades-old agreements with partners such as DCNR, utility companies, and county governments) with the board providing oversight.

Tips and Lessons Learned

From Chief Executive Officer Phil Wenger

"For fee lands, set aside money from every purchase for stewardship. Don't take easements without an endowed fund to monitor and enforce those easements in perpetuity."

Natural Lands

Funds

Held by a trust fund:

- Fund for general operations.

Held by the land trust:

- Multiple permanently restricted funds for stewardship and engagement.
- Multiple board-restricted funds for stewardship, engagement, and general operations.

Management

The land trust uses an outside investment manager, which is overseen by the board's investment committee. The investment committee follows an investment policy and a spending distribution policy. Like with a community foundation, the money in the trust fund (25% of the land trust's total endowment sum) is held

in a separate account and managed by an outside trustee—the land trust has no control over it.

Tips and Lessons Learned

From VP of Finance and Administration David D'Antonio

“No matter how big or small, whenever an organization receives funds that have no obligations tied to them, those funds should be considered for a quasi-endowment.

Distribution from the endowment should be set at a reasonable rate so that the endowment maintains its purchasing power.”

Northcentral Pennsylvania Conservancy

Funds

Held by a community foundation:

- Fund for organizational operations.

Held by the land trust:

- Board-restricted fund for general operations.
- Permanently restricted fund for stewardship costs.

Management

The funds held by the land trust are managed by the trust department of a local bank. The board of directors oversees these funds in accordance with the board-adopted investment policies that address risk tolerance and spending policy; there are separate policies for the organizational fund and stewardship fund, but the text is very similar. The donor who established the board-restricted organizational fund allowed for the land trust to spend principal under certain circumstances with a super-majority of the board (hence the “board-restricted” label). These are outlined in the documentation establishing the fund.

Tips and Lessons Learned

From Executive Director Renee' Carey

“We thought the community foundation would do more to ‘sell’ our organization and our endowment to potential donors, but we haven’t seen that.

A true endowment doesn’t allow for the principal to be used. You’re only taking the interest or a percentage of the interest. I think it’s important for people to understand that and to make sure all the parties involved have the same understanding of what the money is to be used for and how to use it.”

Western Pennsylvania Conservancy

Funds

Held by the land trust:

- Permanently restricted funds for most of the land trust’s program areas.

Management

The board of directors approves investment policies and selects members of the finance committee; an outside investment consulting firm advises the finance committee on investment matters and prepares comprehensive investment reports for the committee and board of directors.

The finance committee is charged with:

- Monitoring portfolio performance.
- Evaluating, engaging, monitoring, and removing investment managers.
- Managing the relationship with outside investment consultants.
- Periodically reporting to the board of directors.

Land trust staff is responsible for day-to-day investment-related activities, including:

- Ensuring policies are followed.
- Executing contracts with outside service providers that have been approved by the finance committee.
- Implementing the allocation of portfolio assets, investment styles, and investment managers as approved by the finance committee
- Interfacing with the custodian bank, investment managers, and other outside professionals.

The board-adopted investment policy:

- Defines the responsibilities of all parties involved in the management of investment assets.
- Provides guidance for investments consistent with the risk posture, investment objectives, and mission of the land trust.
- Establishes criteria to monitor and evaluate performance.
- Details the land trust’s spending policy, which takes advantage of the safe harbors provided by Pennsylvania’s Act 141 which provides for annual spending of endowed funds to be between 2% and 7% as well as limiting spending of accumulated

unrestricted investments to a maximum of 7% annually.

Tips and Lessons Learned

From Chief Financial Officer Connie Eads

“Some nonprofits may be investing their individual endowed gifts in separate investment accounts because it’s the easiest way to track each separate endowed gift. This can become cumbersome to manage from an investment perspective and can negatively impact performance. Once a nonprofit has more than a handful of individually endowed gifts, it should look for ways to pool investments to take advantage of lower fee structures, enhanced asset allocation opportunities, and easier monitoring and management. Accounting for separate endowments can then be achieved through in-house software (newer accounting software or subscription services in the cloud) or through services provided by outside financial services providers.

Having an outside investment consultant selected through an RFP process, whether they are hired just to provide advice or to actually manage the funds, eliminates the possibility of a board member saying, ‘Let’s invest it all in Bitcoin!’; tempers the tendency of some boards to invest endowed funds too conservatively (given the long-term nature of endowments), enhances the quality and depth of investment reporting, and eliminates the need for board members and staff to stay on top of the markets instead of pursuing their nonprofit’s mission.”

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