# ILLUMINATING PERSPECTIVES

BUILDING MEANINGFUL CONNECTIONS BETWEEN DONORS AND THE CAUSES THEY LOVE TO SUPPORT

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## FEATURED ARTICLE

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# Measuring the Interest in Endowments

Each year, in order to accomplish their mission, well-run charities establish a comprehensive operating budget to ensure that funds are properly allocated in the way best suited to accomplish their mission.

Many depend on the generosity of donors and granting organisations for the revenue that allows the work to continue. Some charities receive funding from government. Others rely on funding from other foundations or granting organisations that value the work that they do. Still others rely solely on the donations of individual Canadians.

Even for those working in the sector, it's easy to forget that, in Canada, financial disclosure from registered charitable organisations is available publicly. Canada Revenue Agency makes it easy to look it up. But, when looking at the "revenue" numbers for registered charities, people often overlook how important line 4580 is in the detailed financial information.

What's "Total interest and investment income received or earned," anyway? That's a measure of how much an underlying investment portfolio contributed to the charity's bottom line. Unfortunately, the vast majority of charities do not report any income on line 4580, which makes them more reliant on traditional fundraising strategies.

**About Endowments**

Perhaps the most famous philanthropist in modern history is Andrew Carnegie. In 1901, Carnegie Steel Company was sold for over $300,000,000, making Carnegie the wealthiest American of all time. He devoted the remainder of his life to giving away his fortune and making the world a better place.

In 1911, Carnegie founded the Carnegie Corporation of New York, dedicated to the "advancement and diffusion of knowledge and understanding." He endowed the astronomical sum of $135 million to be used to promote education and peace.

In 2022 alone, the fund made in excess of US$189 million in charitable donations. Over the past 100 years, grants from the Carnegie Corporation have funded the University of

Toronto-based lab that discovered insulin, helped create *Sesame Street* and National Public Radio ("NPR"), and launched the African Peacebuilding Network.

These gifts are possible because the Carnegie Corporation's investments generate hundreds of millions of dollars annually in "interest and investment income." Of course, not every cause can find an Andrew Carnegie with sufficient wealth to create meaningful change in perpetuity. But that doesn't mean we can't learn from the example.

**What Makes Endowments Special?**

From a donor's perspective, an endowment gift is treated exactly the same as any other donation. The entire range of potential donations (cash, appreciated securities, life insurance, etc.) remain eligible, and the tax benefits remain the same. The difference is what the recipient – the charity – does with the money.

Some often think of an endowment as a savings account for charities. That can be partially true; an organisation may set up an endowment to fund a specific cause, like scholarships or a new piece of equipment. But I prefer to think of endowments as investment accounts designed to generate returns that can be used at the discretion of the board to either offset annual operating expenses or to invest in new projects and ideas.

For simplicity, imagine a charity with a $1,000,000 endowment fund. If, in a given calendar year, its investment portfolio generated a five per cent rate of return, it has essentially passively generated $50,000 in revenue. Even if it withdrew and used the $50,000 for programming or innovation, the endowment of $1,000,000 remains, potentially able to generate revenue every year, in perpetuity. Or that represents $50,000 less dollars that need to be raised, annually. Who wouldn't want a reliable stream of annual income to help carry out their mission? As the endowment fund grows, so does the potential to generate annual revenue.

And you don't need an Andrew Carnegie to start. You just need to start. Imagine you have 50 donors each willing to gift you $200 per year for the endowment. In five years, you would have received 50 x $200 x 5 = $50,000 in your endowment. It doesn't sound like a lot, but it can add up quickly.

**Beyond Revenue**

There are even more benefits to charities who have an endowment, as noted by Diana Newman in the book, *Nonprofit Essentials: Building Endowment*. "Endowment contributions designated for specific purposes can provide a measure of independence from economic, governmental, and political forces," says the book. This is especially important when so many small- to medium-sized organisations are reliant on grants from government, from other foundations, or on the generosity of a few families, where a loss of any one could present major challenges. Diversifying nonprofit revenue streams should be a focus of all charitable boards, in my opinion.

However, one often-overlooked benefit to endowments is the signal it sends to current and potential donors. It clearly states that the organisation plans to be around for a long time and that it takes the stewardship over donated assets seriously. After all, asking people to support a cause into the future presumes that they have a long-term plan in place. Donors who are confident that the organisation will be around into the future are more likely to engage in legacy-giving conversations through their will, donations of life insurance policies, and other strategies related to estate planning.

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## Worth Reading

**The Cathedral Within**
Written in 1999, Bill Shore's book continues to inspire. It shares stories of individuals determined to turn their ideas into something that would last for generations. Along the way, they transformed many lives, including their own.

**Uncharitable (the movie)**
This documentary film is based on the book by Dan Pallotta. It is a powerful call to action that demands charities, media, and donors rethink their traditional hat-in-hand vision of philanthropy, asking them to dream bigger.

**The Acorn Method**
In his book, Henrik Werdelin shows businesses how to create, implement, and scale new ideas from within an existing organisation. Many of the lessons from the case studies can also apply equally to those in the nonprofit sector seeking innovation and growth.

## Best Practice Spotlight

FAFALi

Fafali Organization
Accra, Ghana

**fafaliorganization.org**

Sometimes the best ideas come from listening to the people you are working, learning from them, and being flexible enough to make a subtle strategic change to accomplish your mission. That's what happened in Accra (Ghana) with three volunteers from Fafali Organization ("Fafali").

They set out to use sport—in this case football (soccer)—as a way to make a positive impact in the community. Their initial aim was to create a safe a nurturing space where children could gain confidence and develop teamwork skills through sport. What they didn't anticipate was what they learned.

A visibility study by Fafali revealed that 80% of the participants were at risk of dropping out of the program due to difficulty reading. What began as sport-focused program quickly evolved to something greater than even the founders had envisioned. The coaches introduced literacy classes, teaching children to read and write. Combined with sport, their program became a sanctuary for boys struggling academically. Which attracted more participants. And eventually the creation of a female team.

Listening is a powerful school, but so is having the flexability to adapt and adjust to the hidden needs of your community.

For charities for whom endowments are new, this can fundamentally alter the way they interact and communicate with donors. Sure, nonprofits must always keep supporters apprised of the current mission and results, but now they will have to keep them updated on the plans for the future. If you don't have a plan for the future, better get one, quick. For large donors or those interested in funding an endowment, it's required reading.

**Benefits to Donors**

But let's not forget the importance of endowment funding for the donor. Donors who care deeply about a cause may find some additional comfort knowing that the organisation's work will be sustained long after they are gone. Those who assist donors and their professional advisors in this area will stand to benefit; they'll be the ones to build more meaningful relationships more quickly. For example, we worked with a nonprofit to educate their supporters on the importance of estate planning and how to efficiently incorporate philanthropy into their plans. A little education goes a long way. Today, it's easier for that nonprofit to have deeper legacy-giving conversations with those who participated in the session.

In my experience, donors feel a great source of connection and purpose when they make a legacy gift to an organisation they care deeply about. As a result, they often end up volunteering and giving even more. Their overall giving becomes more strategic, and less transactional. Donations of all kinds are welcome and accepted, of course, but those who give strategically could be more valuable to your long-term success.

**So, Where Are All the Endowments?**

Endowments might not be right for everyone. Spire Philanthropy's Building an Endowment: Is it Right for Your Organisation, makes an excellent point:

> "There are many reasons why endowment fundraising hasn't achieved lofty heights, even for organisations which have strategically embraced the concept. It is because they have not established the fundraising culture, infrastructure and performance indicators that reflect this strategic focus. Given the choice, some donors will choose an endowment or endowment-like structure. Without that choice, the focus will always be on the organisation's immediate needs – not necessarily a bad thing at all if this is indeed the intention of the organisation."

Instead of starting their own endowment fund, many nonprofits and charities have decided instead to work with community foundations and donor-advised fund platforms. This gives them the ability to engage in strategic conversations with donors about giving today versus giving tomorrow, without going through the process of setting up their own foundation account.

It's not that setting up and managing an endowment is difficult. It isn't. But it does take time and commitment. The board needs to help establish and set investment policies, for example. The marketing team needs to redefine an overall communication strategy. And all stakeholders must see the endowment as an important strategic objective.

However, without the appearance of an endowment, you won't attract the next Andrew Carnegie. Nor will you diversify annual revenue, requiring you to be forever reliant on annually raising enough money to sustain the mission.

I don't think Ruth Gottesman would have donated $1 billion to the Albert Einstein College of Medicine in early 2024 to provide free tuition to medical professionals if she didn't believe the college had the infrastructure to steward her donation, positively influencing the lives of so many across multiple generations.

Just sayin'.