

CHANCO ON THE JAMES
POLICY
regarding
SUBJECT ENDOWED FUNDS

I. Background

Currently, Chanco on the James has received an endowment. There are no restrictions on how the earnings may be used.

Endowment fundraising is very difficult. While most individuals understand that all not-for-profit entities always need money, they are solicited by so many other not-for-profit entities (e.g., their church, their alma mater, etc.).

Further, because once they contribute funds to a not-for-profit entity, they lose control over how their money is to be used, individuals generally prefer to give to a specific cause rather than to an unrestricted endowed fund. If they can give to something that they care about (such as, the library or athletics), they may be more willing to give to that designated fund.

II. Proposal

To designate several endowed funds, to include: an Alumni Endowed Fund, the Library Endowed Fund, the Athletics Endowed Fund, the _____ Endowed Fund, and the _____ Endowed Fund.

III. Discussion

This paper addresses only endowed funds.

The idea of multi-designated endowed funds isn't new. Many schools (e.g., colleges and universities) have a Library Fund, a Department of History Fund, a Law School Fund, etc. Virtually all schools have an Alumni Fund – which grants scholarships to individual students based on need.

Corporations tend to insist on specific purposes for any large sums that they would give and that the purpose relate to their business. For example, a business involved in technology may be more willing to give to a Technology Endowed Fund.

Chanco on the James should review where they would prefer endowed contributions being designated.

If a percentage of students cannot afford the program fee and thus, would not attend Chanco on the James but for financial assistance, Chanco on the James may want to have a Scholarship Endowed Fund.

Expanding the number of endowed funds to include items in the annual budget would provide greater flexibility to Chanco on the James since the distributions from these funds would be used to offset approved annual expenses and would free-up income from general revenues (e.g., program fees).

Additionally, donors want three things when they contribute to a charity: (1) to know that their gifts were received and are appreciated, (2) to know that their gifts were used as intended and (3) to be informed of the difference that their gifts made.

If donors want these three things relating to their gifts, then having specified “subject” funds (e.g., a Hiking Trails Endowed Fund) should make it easier for Chanco on the James to acknowledge where their gifts were used and how their gifts made a difference (e.g., “the Chanco on the James was able to do whatever with money from the Hiking Trails Fund, which Chanco on the James would not otherwise have been able to do” etc.).

Further, if only the earnings are used to make purchases, Chanco on the James could point out annually that each and every year, continuing with the same example, Chanco on the James is able to maintain, expand, etc. the trails from the Hiking Trails Endowed Fund.

IV. Potential Concerns

There are two, maybe three, potential concerns regarding designating subject endowed funds. The first potential concern relates to the accounting effort. The Treasurer needs to address this, but since all endowment moneys are pooled and invested, this should not be a significant concern.

The second potential concern relates to “what if” potential donors favor one designated subject fund and exclude others. One means to resolve this is to place a cap on the total amount that can be contributed to each designated subject endowed fund. For example, if the library’s budget is \$10,000, then the cap on the Library Endowed Fund should be \$200,000. [$\$200,000 \times 5\%$ (Chanco on the James’ approved payout percentage) = \$10,000.] This \$200,000 cap would be adjusted for inflation and the amount in that fund could increase based on investment results, but additional contributions to that fund would be discouraged.

The third potential concern relates to the perception by Chanco on the James’ staff. Specifically, an attitude may develop that distributions from a designated subject endowed fund is in addition to the approved budget amount. The means to resolve this is education – that is, informing the staff that the budget is the amount approved by the Board for spending for any given budget item; the source of the funds is irrelevant.