

**Creating & Growing  
Endowment Funds  
for your  
Parish and/or Catholic School**

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**What is an endowment?** An endowment is a sum of money, permanently set aside for the benefit of the parish or school, which is invested for long-term growth and produces an annual income stream for the parish or school.

**Why have a parish and/or school endowment?** Endowments offer benefits to both the donors and the parish and/or school.

An endowment can be **God-pleasing** for several reasons:

- Its purpose is the advancement of the mission.
- It reminds God's people that wills and estate planning are an important part of Christian stewardship, and as such are opportunities to put love into action for the family of God.
- It provides an orderly, established, and convenient means to receive and administer gifts and bequests for the benefit of Christ's mission.

For the donor, it is an opportunity to **create a legacy** that will continue to support the good works of his or her parish or school long after death. The donor's endowed gift becomes an opportunity to indicate all that was important during his or her lifetime.

For the parish and school, the endowment is **a predictable income stream**. Excellent programs, services and ministries require substantial, consistent and permanent funding. An endowment provides a stable base for that funding. Endowments should not be used to pay the electric bill; rather they should support, enhance and expand the base programs, ministries and services of the parish and school. Endowments can smooth the vagaries of other funding sources (such as the rise or fall due to economic and market conditions or numbers of parishioners/students.) Additionally, endowments may provide stability from the effects of inflation and add a critical component to parish and school fiscal health by being a source of collateral when seeking loans for capital expenditures.

### **Creating an Endowment in the Upper Peninsula Catholic Foundation, Inc.**

The Upper Peninsula Catholic Foundation, Inc. is a new organization dedicated to passing on the faith through building permanent endowments to support the Church's mission. This Foundation makes it easier than ever before to plan legacy gifts that align with Catholic values. Individuals, parish families, Catholic school alum, and other groups can establish a fund in the foundation – or give to an already existing fund - to forever benefit one or more Catholic institutions and causes within our diocese.

The Foundation handles the administration and makes distributions directly to the fund beneficiary, as designated by the donor. A volunteer board of Catholic directors will help ensure high standards of fiscal and operational accountability. Foundation assets will grow through socially responsible investments that uphold Catholic values.

Beginning in 2016, all new endowment funds must be established within the Upper Peninsula Catholic Foundation. More information on how to establish funds, as well as foundation operating policies and procedures, will be developed by the Upper Peninsula Catholic Foundation, Inc. board of directors in 2017.

## 5 Reasons to Create an Endowment

- 1. Durability.** Provide for the long-term needs of the parish/school and the people. Endowment funds are to a parish/school what retirement funds are to an individual – they represent set-aside resources for the future. No parish or school will ever stop raising current gifts to support ongoing operations, but it may, through endowment dollars, be able to underwrite programs, positions and even facilities that would be impossible to maintain otherwise. A strong endowment provides financial depth and permits confident planning. People like the concept of a fund that is guarded and invested separately from other assets so the principal of the fund will stay in tact. Only the income or a portion of the income will be used to support the parish/school.
- 2. A Positive Legacy.** Establish a legacy for others to continue. Help ensure a tradition and a sense of value for caring in your children, friends, and colleagues. When donors attach their names to an endowment fund, they create an enduring legacy that will outlive them and influence succeeding generations. Grandchildren, great-grandchildren and other family members and friends will be reminded of the person's values and commitments. Endowment funds can also be used to honor the lives of others who have made a significant impact on the donor and/or the parish/school.
- 3. Perpetuate Annual Gifts.** Many donors see an endowment fund as a means to underwrite their own regular giving the parish or school. For example, an endowment fund of \$20,000 could create an annual "gift" of \$1,000 to the parish or school. It's a great way to keep giving generation after generation.
- 4. A Stronger Parish.** Each year, the parish or school must raise a certain number of dollars to meet operational costs to sustain facilities, ministries, programs and personnel. Raising money for the "here and now" is always a priority. Annual payouts from endowment funds relieve some of this pressure and permit the parish leadership to plan more confidently for the future. An organization with a strong endowment is simply more stable financially.
- 5. Personal Satisfaction.** There is something wonderfully fulfilling about doing something good that lasts, something that really makes a difference. Other kinds of giving are important, but supporting a fund that will benefit others for centuries is truly satisfying. An opportunity to give is an opportunity to be involved. It is caring and serving.

## Endowment Essentials

- 1. Know why you need (or have) an endowment.** In order to successfully undertake an endowment initiative, the parish/school ideally would have financial stability, a solid annual fund raising program, at least the beginnings of a major and planned giving program, a focused mission, efficient implementation of that mission, and a clear vision both of where it is headed in the future and of how an endowment will help this vision become a reality. A strong strategic plan that articulates a vision for the future of the parish/school is a must.

If the parish/school does not have a stable financial base and struggles at times to meet payroll and other fixed expenses, an endowment is not the answer to this basic problem. It would be extremely difficult for a parish or school in this predicament to attract gifts to an endowment; people will not invest in a sinking ship.

The answers to the following questions will help answer the underlying "why" question for your parish or school:

- What role will the endowment play in the future vision for the parish or school?
- What is the fiscal stability of the parish or school?
- What is the status of the parish or school's annual fund raising initiatives?

- What is the trend for meeting the annual parish UPCSA goal?
- What is the trend for meeting third source revenue needs for the school?
- Are there consistent, long-term donors? Are new donors being added?
- Are parishioners or school supporters regularly “taking a step” in their annual giving?
- When was the last time the parish or school had a major fund raising drive? What was the outcome?

**2. Know What Your Endowment Is Designed to Accomplish.** There are many inaccurate perceptions about what an endowment is and is not. It is important that the endowment governing body and parish/school leadership have an accurate understanding of what the endowment is designed to accomplish.

The vast majority of endowment are permanent - the principal amount is held and invested and only the income (or a portion of the income) is spent each year. There are, however, some variations on this general endowment theme. Some funds have the ability to invade the endowment’s principal and spend a portion, or all of it. Some funds may look and function like a permanent endowment, but have a limited life.

The purpose of the fund should be clearly stated in the establishing document (Juridical Person). Endowment funds can be designated for specific purposes (such as educational scholarships), or for broader purposes (such as support for Christian education).

It is important to determine an appropriate role of the endowment within your parish or school. This decision needs to be made in light of donor needs and parish/school needs. Generally, the more complex the endowment fund is, the more work that will be involved in administering it. Service to endowment donors is critical.

When a parish or school has a good understanding the what the endowment is designed to accomplished, and has a good understanding of its own long term ability to administer the fund, then it will be well positioned to respond to donor needs, build the endowment, manage the assets, and deliver the benefits to the people of the parish or school community.

**3. Develop Investment and Spending Policies.** Once an endowment has been established and gifts begin to arrive for it, the funds must be invested and managed properly. The assets of the endowment must grow to ensure the long-term viability of the endowment. Ideally, the assets would grow at a rate slightly greater than the rate of inflation in order for the endowment to grow in real terms.

Some of the investment issues that need to be considered within the **investment policy** are investment objectives and strategy, performance expectations, management, and management fees. The Upper Peninsula Catholic Foundation will have established investment and spending policies for the purpose of receiving, holding, managing, investing and reinvesting funds contributed by participating entities of the Diocese.

One of the fundamental goals for an endowment is to produce a predictable income over time. In order to do that, a **spending policy** must be established to determine the amount to be spent each year.

The simple method is to spend whatever income is produced each year. However, because of market fluctuations and a low interest rate environment, spending only income does not meet the fundamental endowment goal of a predictable income.

Spending policies provide that a certain percentage will be spent each year. This percentage is typically in the 4 ½ to 5% range. The question then becomes: “4 ½ to 5% of what?”

Spending a stated percentage of the endowment’s value as of a certain date (i.e. the first day of the fiscal year) is simple. However, this method can cause wide income variances from year to year. This method does not meet the goal of predictable income.

Most sophisticated endowments use a rolling average to determine distributable annual income. For example, the endowment’s net assets are determined at the end of the fiscal year. Distributable income is determined by multiplying the spending percentage by the average fiscal year end net assets of the endowment over a certain period (5 year rolling average, for example.) Organizations utilizing such a model have found that it produces a steady and predictable income distribution.

4. **Promote Your Endowment and Opportunities to Give to It.** The endowment should be marketed in a variety of ways. This is especially important if the endowment fund is in its early years. Parishioners and supporters should know that the endowment exists and that it is a vital component of the parish or school’s future planning and vision.

Creating an awareness of the endowment can be accomplished through traditional channels of communication such as the newsletter and annual report, direct mail, the web site, and even from the pulpit. Communication efforts via these channels are merely the beginning.

The message of your promotional effort should focus primarily on the benefits a potential donor would derive from establishing an endowment or gifting to an existing endowment. Chief among them is the perpetual nature of the endowment. Many people are looking for ways to leave a lasting impact on the world after they depart from it. What better way to do this than through an endowment that will provide important resources for the donor’s parish or school in perpetuity?

Another way to promote your parish/school endowment is the establishment of a fund in memory of or in honor of a family member, mentor or other loved one. This tribute will be perpetual. Many people feel a debt of gratitude to their parish, and an endowment is a method of saying thank you to the parish.

5. **Stewardship, Stewardship, Stewardship.** You can’t thank a person too many times for supporting your parish or school. Endowment donors may be your most ardent supporters. They believe enough in the parish or school and its future to provide support to it forever.

It is said that the most profitable business is repeat business. Stated another way, an organization’s best prospects for future donations are its current donors with endowment donors at the top of this list.

One effective stewardship mechanism is an annual report. This report details the investment performance of the endowment and shows the impact that the endowment’s annual income distributions have had on the organization. The report would have a short paragraph about each individual endowment fund’s donors, the purpose of each endowment fund, the amount contributed to each fund and each fund’s current market value. These annual reports are a source of pride for endowment donors. They also serve as an important marketing tool for potential endowment donors. The Upper Peninsula Catholic Foundation will publish an annual report as a measure of accountability and transparency.

The stewardship activity with the most impact is a communication between the beneficiary of an endowment and the endowment donors. An example of this is a letter to the endowment donors (or the donor’s family if the donor is deceased) from a person who has benefitted directly from this endowment, or from the leader of the beneficiary entity (pastor or school principal, for example.)

This letter can express gratitude, explain the impact the gift had on his/her life, and share related dreams and future plans.

Such communications can be the genesis of a life long relationship. They can also sow the seeds for the next generation of philanthropists.

## **Conclusion**

Endowments are the lifeblood of many organizations. An endowment will provide funds to support your parish and/or Catholic school forever. Endowments can be established for general purposes or for specific programs or projects.

An endowment gift is truly a gift that “keeps on giving.” It is an eternal flame that will burn brightly in the hearts, minds and faith life of the next generation of Catholics. An endowed gift is a faith expression and evidence of the donor’s belief and commitment to the Catholic faith.

Stewarding the endowment is an important responsibility of the parish and school. Those who contribute to endowments are placing their confidence and trust in the individuals who will do the work of improving, strengthening and sustaining the quality programs and services that are the foundation of our faith. Endowments are institutional commitments that transcend changes in personnel, pastors, administrators and board members.

Work diligently to build your endowment. Do so secure in the knowledge that your work will long outlast you as you help philanthropists provide a solid future for your parish.