The Endowment Concept

What is an Endowment?

In general, a financial endowment is a fund made up of donations to an institution made with the stipulation that the fund be invested, and the principal remain intact. This allows for the fund to have a much greater impact over a long period of time. The endowment is intended to be kept permanently and invested to provide income for continued support of an organization. Usually, the income stream generated by an endowment is earmarked for a specific expense within the operations of the charity for whose benefit the endowment was established.

Why should Christian camps consider using an endowment?

Ministries who have need for continued support will benefit from establishing an endowment to provide a perpetual cash stream to meet those ongoing needs. In Christian camping, this inherent tension is often relieved by asking the employees to settle for much less compensation in order to make the camper cost affordable for parents. One person bears most of the burden. An endowment can remedy the problem.

Why hasn't the endowment approach been used before?

It has been used before, in fact, for centuries. Every major college and university has at least one endowment. The world's largest educational endowment contains more than $34 billion! (Harvard University) The Harvard endowment funds salaries for department chairs, scholarships for students, expenditures for facility care, and much more.

Why haven't Christian camps used the endowment approach?

Most Christian camps have not been actively involved in establishing endowment funds. Is this true because endowments are wrong? I believe endowments have not been used because we have not been "multi-generational" in our thinking. Some have said, *"We just need to trust the Lord and live by faith!"* When I hear a statement like this it is only fair to ask the individual what they mean by "living by faith." Would they say: "Living by faith means we will do nothing but wait until God miraculously places our provision into our hands," or "Living by faith means we must live hand-to-mouth and consume every dollar we bring in"? I believe it is more accurate to define "living by faith" as: **"Taking God at His Word and acting accordingly."** There is a big difference between the two mind-sets! The former allows opportunity to ignore responsibility while trusting in our own thinking, or imagining what God may be up to. The latter is based in what God has already said in His Word; Bible principle which requires faithful obedience.

The Biblical Basis For Endowments

Is the endowment approach a faithless approach? I think not. In fact, I am convinced that it is thoroughly a matter of faith. The issue of faith centers on God's provision.

Rapidan Baptist Camp Vision focuses most heavily on providing additional resources for staff salaries, scholarships for campers and keeping the cost of camp affordable. Simply stated, the ministry must have enough revenue from either gifting or fee revenue, or a combination of both, in order to meet the provision needs. *Both sources require faith.*

We must trust God to provide for the financial needs of the ministry, whether through gifting or by the provision of students who will pay the tuition fees. As we have already seen, tuition alone can never provide the resources sufficient to honorably compensate the school's teaching professionals while keeping rates affordable.

The endowment approach requires prudent structuring of resources and trust in God to provide them. The resources come from gifting and good financial management. Both components are Biblical: Giving is certainly commended in Scripture. So is good management of our resources!

Consider the following passage of Scripture:

> *"Be thou diligent to know the state of thy flocks, and look well to thy herds. For riches are not for ever: and doth the crown endure to every generation? The hay appeareth, and the tender grass showeth itself, and herbs of the mountains are gathered. The lambs are for thy clothing, and the goats are the price of the field. And thou shalt have goats' milk enough for thy food, for the food of thy household, and for the maintenance for thy maidens.*" (Proverbs 27:23-27 KJV)

In order to be a faithful steward, both knowledge and attention must be given to the resources God entrusts to us.

Solomon also says, "*A prudent man foreseeth the evil, and hideth himself: but the simple pass on, and are punished.*" (Proverbs 22:3 KJV). A wise leader will look ahead, and because he does, he sees a calamity heading his direction. He takes action to avoid the destructive impact of the calamity. This is good stewardship.

And finally, just spending our resources is not considered wise stewardship, "*There is treasure to be desired and oil in the dwelling of the wise; but a foolish man spendeth it up.*" (Proverbs 21:20 KJV). Saving and investing are both commended in Scripture. Spending every last dollar in hand is not a Biblical approach!

The endowment concept is also based on an understanding that God already owns everything. If it all belongs to God then "spending it up" is not the issue. The issue becomes the <u>positioning</u> of God's resources. Consider this familiar cliché: "If you give a man a fish, you feed him for a day; if you teach a man to fish, you feed him for a lifetime."

When it comes to ministry gifting we could learn from this saying. A gift for the provision of a current need is used up the day it meets the need. A gift to an endowment is an investment that continuously gives to meet ongoing needs. The difference required is an ability of leadership to see past the immediate wants of the day to the long-term stability of future generations. Will you have the wisdom to take a multi-generational approach to your tenure in ministry leadership?

Charitable gifts can be divided into three categories: (1) immediate or outright gifts, (2) deferred gifts, and (3) deferred gifts with income benefits. Although it is beyond the scope of Rapidan Baptist Camp to detail the technicalities and details of various kinds of gift options that are best for you.

Ways to give:

Charitable Gift Annuity or Charitable Remainder Trust: Charitable gifts that provide a guaranteed income back to you for your life. At death the balance of your gift is added to the endowment.

Life Insurance: The cash value of an existing policy can be given to the endowment. You can also add the endowment as a full or partial beneficiary of an existing policy or give an annual premium amount allowing our ministry to purchase a policy on you with the endowment as the beneficiary.

Real Estate: The property can be given outright given as a “bargain sale” or given as a “life estate” that allows you to live on the property during your lifetime and transfer to the ministry at your death.

Will or Trust: Every Family needs a will or trust. Just as you have given regularly in your life, you should consider giving in your will as a final act of stewardship. By giving through your will or trust you send an appropriate message to your loves ones about the priority of God in your life.

Immediate or Outright Gifts

Outright gifts to endowment funds permit the immediate long-term investment of the gift to provide support either for purposes designated by the donor or, if the donor has made no designation, for purposes chosen by the board of directors. These gifts are most desirable to the organization, because they provide immediate funds or assets that can be invested now to provide ongoing revenue for the organization.

- *Cash*. The most familiar type of gift is cash, usually given through a check written by the donor. Nonprofit organizations are pleased to accept checks in any amount, although most require a minimum-size gift to establish a named endowment fund. Donors need to be reminded to note on the check or in the accompanying letter that the gift is for the endowment—either the general endowment or a specifically named endowed fund.

Outright gifts of cash are fully deductible for federal income-tax purposes up to 50% of adjusted gross income. If the donor’s total gifts exceed 50% of adjusted gross income, the excess may be carried forward for tax purposes for up to five additional years.

- *Stocks and bonds.* Nonprofits accept gifts of publicly traded stocks and bonds at fair-market value. Fair-market value is determined under IRS rules. Generally, gifts of publicly traded securities are sold by the organization as soon as possible, and the proceeds from the sale are added to the appropriate endowed fund, after commissions and expenses, if any. Nonprofit organizations also accept gifts of shares of mutual funds.

A gift of appreciated stock held by a donor for more than a year offers the donor a three-fold tax savings. First, the donor avoids paying any long-term capital gains tax on the increase in value of the stock. Second, the donor receives an income tax deduction for the **full fair-market value** of the stock on the date of the gift. For income tax purposes, the fair-market value of such gifts is deductible up to 30% of adjusted gross income, with an additional five-year carry forward. Finally, because it has been given to charity, the stock will not be subject to estate tax upon the donor's death.

Both publicly traded securities and closely held stock can be used as gift assets. *Publicly traded securities*. For publicly traded securities—those on the public markets such as the New York Stock Exchange or NASDAQ—the value of the gift is the average of the high and the low price of the stock on the day the gift is complete. This is an important concept and a calculation that is more complex than you might expect. (See Tips and Techniques, IRS Resources to Keep in the Office, "Determining the Value of Donated Property".)

- *Closely held stock*. For closely held stock—stock that is not publicly traded, such as family businesses—value is determined by an independent appraiser, usually paid for by the donor. This is significantly more complex than publicly traded stock, where the value can be easily determined. Proposed gifts of closely held stock and partnership interests should be reviewed and approved both by the organization's legal counsel and by the board of directors.
- *Real estate*. Gifts of real estate should be reviewed and approved by the organization's board of directors. Donors should be required to provide evidence of clear title to the property and Phase I environmental assessments as well as legal descriptions of the property. Donors will need independent appraisals to submit with their tax returns. Before acceptance of a gift of real estate, the organization and the donor should agree, in writing, on arrangements for paying the expenses associated with the property, including taxes and assessments, insurance coverage, and maintenance costs. The organization should review any liabilities, restrictions, or other conditions related to the gift. The organization should establish clear policies that apply to its acceptance of gifts of real estate in order to cover all of the issues peculiar to real estate and gifts of entities with assets that include real estate. (See the discussion of Acceptance Policies for Endowment Guifts in the section on Developing an Endowment Policy Manual in Chapter 5.)

When an individual makes an outright gift of real estate to an organization, the donor can take a charitable deduction of the fair-market value of the property contributed. The deduction is limited to 30% of the donor's adjusted gross income. If the fair-market value is greater than the donor can use in one year, the excess can be carried forward as a charitable deduction to be used over the next five years. In addition, the donor avoids capital gains tax on the profit that would have been taxable if the property had been sold, and the asset will not be subject to estate tax at the time of the donor's death.

- *Tangible property*. Coins, antique cars, jewelry, and other collectibles, all known as tangible personal property, may be accepted as gifts. The property must be saleable, and the donor must agree that the property can be sold unless the organization agrees to use the property in ways related to the organization's exempt purposes. The donor is responsible for obtaining a qualified appraisal in order to comply with IRS regulations. This gift to a charitable organization avoids capital gains tax, is deductible on the donor's income tax return, and removes the property from the donor's estate for estate tax purposes at the time of the donor's death.
- *Bargain sale*. A bargain sale is a sale of property by a donor to a charitable organization for a price less than the property's fair-market value. The excess of the fair-market value over the sales price represents a contribution, which is deductible by the donor for income tax purposes. The organization's board of directors should approve the purchase of property on a bargain sale basis. The amount of the allowable deduction for a bargain sale is subject to the rules of the IRS relating to bargain sales.
- *Charitable lead trusts*. A charitable lead trust is a separate legal entity that holds assets for a period of years or for the lives of one or more individuals for the benefit of a nonprofit organization, after which the assets are distributed by the trustee to noncharitable beneficiaries, often children or grandchildren, designated by the donor. During the period of the trust, it pays the trust income to the organization or to the organization's endowment—a wonderful way to build the endowment annually.

The charitable lead trust is attractive to generous individuals in high estate and gift tax brackets. It allows the donor to benefit a favorite charity and, thereafter, pass the principal to family members with little or no taxes owed. A trust created during a donor's lifetime "locks in" the gift tax value early on, so any appreciation in value over the remaining years of the donor's life generally will not be taxed to the donor's estate or to the family.

Deferred Gifts

Some donors are reluctant to surrender control over assets that have been acquired over a lifetime. Others do not want to donate assets that generate earnings during their retirement years. Such donors can designate charitable organizations as the beneficiary of all or a portion of their assets at the time of their deaths. Such beneficiary designations are revocable. The donors may change the beneficiary at any time during their lifetimes. The overwhelming majority of donors, however, do not change beneficiaries once they are made.

- *Bequests by will or trust*. Bequests are the most common form of deferred gifts, accounting for approximately 80% of all deferred gifts each year. The donor should specify in a will or trust the organization as the donee and the name of the endowment fund to which the donor's gift should be allocated. Any restrictions on the use of the bequest may be described in detail in a separate fund agreement signed by both the donor and the organization.

Bequests can take many forms. Among the options available to donors are as follows:

- *Specific bequest*. The donor may give a specific sum of money, asset or list of assets, or real estate to the organization's endowment fund. Specific asset bequests offer certainty as to the asset or amount that will ultimately be given.
- *Percentage bequest*. The donor directs a percentage of his or her estate to be given to the organization's endowment fund. This percentage could be of the donor's entire estate, residuary estate, or specific asset. By using a percentage, charitable gifts will automatically adjust with fluctuations in the size of the estate.
- *Residuary bequest*. A provision in the will or trust that directs the remainder of the estate or a designated percentage of the remainder of the estate, after all other provisions in the will or trust are satisfied and all estate administrative costs are paid, to the organization's endowment fund is a residuary bequest to the organization. A residuary gift is a gift of "what's left" after all other gifts are completed and made.
- *Contingent bequest*. Donors may provide in their wills or trusts that their assets be given to nonprofit organizations if those named as primary beneficiaries predecease the donor.

Charitable bequests require the assistance of a competent and independent attorney who is knowledgeable about state and federal laws governing wills, trusts, and charitable gifts. Preparation of a will or trust by someone other than a licensed attorney constitutes the unauthorized practice of law in all of the states. Thus, the nonprofit organization may want to keep a list of local attorneys who are experienced in charitable estate planning for donors who request referrals. As a caution, always recommend more than one attorney so that the organization does not appear to be soliciting clients for any particular attorney.

Although donors have no obligation to inform organizations about intended bequests, it is strongly recommended that donors consult with organizations' qualified staff to draft a description to guide the use of the gift. All communications with donors are held in strict confidence.

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