

BORROWING AND INVADING ENDOWMENT

When adopting policies defining and restricting the uses of endowment, governing boards need to be mindful of an unpredictable future. Who can predict when or if a serious financial crisis could face an organization holding but restricted from using its endowment funds? Who can foretell when or if financing needed for major facility renovation could strain the operating budget of an organization when significant endowment funds were at-hand?

Unlike most other governing board actions which can be reversed or amended by future boards, policies defining and restricting endowment funds is essentially a covenant with donors. Lifting those restrictions is the prerogative of those donors, and not future governing boards.

Borrowing Endowment

We encourage clients to consider policies which would enable the organization to borrow funds from its endowment under a specific set of provisions; for example:

- requiring majority approval by the then serving governing board;
- not exceeding a percentage of endowment principal, as an example up to 20%; and,
- adopting a repayment schedule over no more than 5 years with interest at the then current prime interest rate.

Invading Endowment

At some future time an organization could face serious financial circumstances. With that in mind, we also suggest that clients consider a policy that would permit “invading” endowment funds under a specific set of conditions; for example:

- requiring unanimous approval of the then serving governing board ; and,
- not exceeding a percentage of endowment principal, as an example no more than 15%.

Policies for borrowing or invading endowment as a rule should not be applied to endowment funds where the *income has been designated by donors* for specific expenditure purposes; for example for scholarships, art acquisitions, medical equipment. Also, policies for borrowing and invading endowment should be made known to donors considering endowment gifts, and exceptions made wherever judged appropriate to satisfy donors’ wishes.