

Why Endowments Make Sense

by George Goolsby (TX)

Thanks to the generosity of our members and friends, we are making real progress in our efforts to build meaningful endowments and attend to our capital needs.

You will recall that when our Board initiated the [For All Time 75th Anniversary Endowment and Capital Campaign](#) in the summer of 2012, the goal was to raise \$7.5 million by the Association's 75th anniversary in 2018. The first phase of the Campaign focused on our potential major gift-giving, while the second phase is our All Members and Friends phase. As the name of the second phase suggests, beginning with our recent National Convention in Louisville, KY—a rousing success, by the way—we have expanded the scope of the appeal and now seek the broad-based participation of everyone who appreciates what we are doing and wishes to be involved.

What is the purpose of the For All Time Campaign? Simply put, it is to create several endowment funds, each of which underwrites a particular element of our mission, to ensure that long-term financial resources remain available to fulfill each element.

What are the elements? Of the \$7.5 million total goal, \$5.5 million is for the following endowments: education (\$500,000), the Library and Research Center (\$1.2 million), the Museum (\$3.3 million), and technology, publications, and headquarters operations and services (\$500,000). A fifth element is not an endowment, but a fund to address current and long-term capital project needs (\$2 million).

As of mid-September 2016, we have passed the \$2.5 million mark and look to surpassing \$3 million in the near future. But the question arises, why are we using endowments and how well does that approach fit our needs? Endowments are a form of long-term savings for the organization. Indeed, because they are a form of restricted funds, the donor gives to the organization with the expectation that the savings will be invested to grow over time; only a small portion of the endowment assets—ideally, only a portion of the in-



vestment returns on the assets, assuming a favorable investment environment—is then expended annually for the intended purpose. The growth in asset value is enhanced by our status as a nonprofit tax-exempt organization under US law. Equally important, the purpose for which the donation was made will be honored. For example, the amounts distributed from the LARC endowment will be used only for library and research needs. In this way, the endowment increases in value and the annual amounts distributed from the fund are limited, so that these annual distributions may continue for many, many years.

How can we be comfortable that the funds won't be taken and spent prematurely for another purpose? Our endowments are governed by the terms agreed upon between the donor and the Association and are binding on our Board of Directors and executive director. A second level of protection is that endowment donations made to the Association are held in trust and governed by Pennsylvania law. That's why you may see statements in our campaign literature like

“Endowment funds will be held in trust and expenditures made in accordance with Pennsylvania law.”

Each year the Board of Directors may declare as “income” only a portion of what’s in a specific endowment fund. For each endowment, the Board has the discretion to declare between 2 percent, the legal minimum, and 7 percent, the legal maximum, of the fund as income available for distribution during the year for use for the restricted purpose (e.g., the Museum). Again, it is only this income that can be distributed and spent. You might ask, if the Board declares and spends 7 percent per year for a number of years in a low-yield environment, isn’t the endowment fund going to be quickly exhausted? That’s a valid concern, but one addressed by the statutory rule that each annual election of what is income must be “consistent with the long-term preservation of the real value of the assets.” Given these restrictions, we are well positioned to monitor the situation to ensure compliance.

What are some of the other benefits of using endowments? Diana S. Newman, in her excellent book *Nonprofit Essentials: Endowment Building* (Hoboken, NJ: John Wiley & Sons, 2005), has succinctly summarized several benefits.

From the perspective of the Association, the following benefits of an endowment are:

- They create an ongoing source of income.
- They enhance stability and prestige.
- They relieve pressure on the Annual Appeal and our annual membership fees.
- They allow the development and improvement of our programs and services.
- They provide a measure of financial independence.
- They offer management flexibility.

From the donor’s perspective, these are the following benefits of endowments:

- They are a way to express appreciation and perpetuate the donor’s values and perspectives regarding horology.
- They represent a significant investment in the future of the Association and its mission.

- They create a sense of immortality by furthering the donor’s support beyond their lifetime.

Some types of endowment donations, such as charitable trusts and annuities, provide ways to make tax-efficient donations while providing lifetime income to the donor. For those who donate a certain amount per year to the Annual Appeal, a significant endowment bequest in a will or trust instrument can function as a continuing annual gift well beyond the donor’s lifetime. One other benefit, of course, is that endowments provide a way for the donor, or the donor’s family and friends, to make future additions to an existing fund in support of a favorite cause.

With more than two years to go with the For All Time Campaign, we are one-third of the way to our goal. We are working to add more and more participants to the roster of donors. We will be calling on all who have not yet donated to give serious consideration to doing so.

I am reminded of the preacher who stood before his congregation one Sunday morning and announced that he had good news and bad news about the church’s capital campaign.

“The good news,” he said, “is that we have all the money we need to meet our campaign goal.” The congregation was most pleased to hear it.

But then he added, “The bad news is that most of it is still out there in your purses and wallets.”

Your Association needs you to be part of our future. Please help us if you can, when you can, and to the fullest extent you can.

For more information on the Campaign, please visit foralltime.nawcc.org.

To receive campaign literature or if you have questions or need help please contact me at goolsbyg@swbell.net or 713.261.4978 or Executive Director Steve Humphrey at shumphrey@nawcc.org or 717.684.7047, ext. 209, and we’ll be happy to respond.

About the Author

For the past four years, George Goolsby has been a member of the NAWCC’s Board of Directors and served as the chair of the Development Committee and the For All Time 75th Anniversary Endowment and Capital Campaign. He has been a member of the NAWCC for nearly 40 years.