

Slide 1



Meeting the Challenge of Nonprofit Sustainability

Five Steps to a Successful Endowment

Kathryn W. Miree & Associates, Inc.

Slide 2

What We'll Cover

- We will begin with the role of endowment.
- Then, we'll go through the process of building an endowment in five steps.
- Building endowment requires a proactive process.
- It's easy to get lost without a plan - so the last step is to make a plan and set goals.

Slide 3

How Well Do You Know Your Endowment's Vital Statistics?

Slide 4

Take the Test

1. Does your organization have an endowment?
2. What is the market value of that endowment?
3. What is the current asset allocation of the endowment?
4. How has that asset allocation changed over the last year with the dramatic changes in the markets?
5. What was the total return on your endowment last year? Over the last five years?
6. How do your total returns compare to the blended index?
7. What is the spending policy for the endowment?

4

Slide 5

Take the Test

8. Are there any restrictions on terms a donor can impose on endowment gifts?
9. Are there any restrictions on the type of assets that can be contributed to your endowment?
10. Who makes decisions about distributions from your endowment?

5


Slide 6

Score Your Results

<i>Number Answered</i>	<i>Scoring</i>
9-10	Your donors will be impressed
5-8	You will survive the conversation
3-4	Prepare to be humbled.
0-2	Do you really work there?


6

Slide 7



An Endowment Overview:
The Role of Endowment


Slide 8



Defining Endowment

- o Why is a definition necessary?
 - Each nonprofit has a definition
 - Each board member may have a definition
 - Many organizations have funds scattered in a variety of accounts – which are endowment?

Slide 9



The Legal and Practical Definitions

- o Endowment n. the creation of a fund, often by gift or bequest from a dead person's estate, for the maintenance of a public institution, particularly a college, university, or scholarship.
- o ENDOWMENT. The bestowing or assuring of a dower to a woman. It is sometimes used: metaphorically, for the setting a provision for a charitable institution, as the endowment of a hospital.

Slide 10


The Legal and Practical Definitions

- o *Endowment*: A permanent fund bestowed upon an individual or institution, such as a university, museum, hospital, or foundation, to be used for a specific purpose. Endowments may be separately held funds within the charity, or separately established nonprofits holding long-term funds generally referred to as supporting organizations to the charity. SP

Slide 11

Forms of Endowment

- o True endowment
- o Quasi endowment
- o Term Endowment
- o Pooled Endowment



The illustration shows a person standing on a winding path at night, holding a glowing lantern. The path leads towards a distant light source, possibly a star or a goal, under a dark sky with several stars. The scene is set on a grassy area with a small building or structure in the background.

Slide 12

The Paradigm Shift

- o Ten years ago – endowments were an embarrassment of riches
- o Now, fiduciary duty
- o However, the urgency of current programs must be balanced with preparing for the future

Slide 13

Why So Much Talk About Creating an Endowment?

- The economy is tough and taking a toll on donors
 - Since 2000
 - Now, uncertainty in markets, interest rates, jobs, inflation, oil
 - Affects all wealth/age groups

Slide 14

Why So Much Talk About Creating an Endowment?


- Government grants are disappearing – greater needs with less available funds
 - National Association of State budget Officer – “Fiscal Survey of States”
 - June 2010 - 6.8% decline in spending from 2009 to 2010.
 - Cuts will occur in public health, elderly and disabled, education, work force
 - Federal government deficit at high

Slide 15

Why So Much Talk About Endowment?

- Private foundation grants are shrinking
- The number of charities reaching out to your donors is increasing
 - 819,000 in 2000
 - almost 1.3 million in 2010
- Boards have a fiduciary duty to ensure there are sufficient funds to address mission


Slide 16



Do You Need Endowment?

- o Does the organization serve a purpose or need that is likely to exist on a long-term basis?
- o Do cyclical economic variances impact the receipt of annual or special event gifts?
- o Does the organization face increasing operating costs?


Slide 17



Do You Need Endowment?

- o Does the organization have new programs related to mission that cannot be operated because they lack funding?
- o Do you anticipate future needs that will require funding?
- o Do you face increasing competition?
- o Are you dependent upon grants?
- o Have you lost gifts because of death?

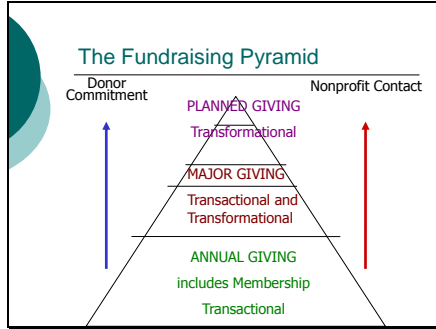
Slide 18



The Link Between Endowment and Planned Giving

- o Planned gifts, legacy gifts, and endowment are closely tied
- o Annual gifts – from income
- o “Lasting” gifts – from assets
- o Continuation of the relationship with the donor

Slide 19



Slide 20

A Strategic Assessment of the Task

- Your Strengths:
 - Visibility in the community and a network of donors
 - An opportunity to work with and support each other
 - Knowledge of the needs of your organization and its vision
 - An active fundraising program on which to build.
 - Years of information about your donors.

Slide 21

A Strategic Assessment of the Task

- Your Weaknesses
 - You may be new to the process of building endowment.
 - You may have limited staff.
 - Further, you may not be trained in the more complex gift transactions that add flexibility and range to donors in making endowment gifts.
 - You may not have the time to build the infrastructure, assemble and manage the volunteer team, and expand the marketing.

Slide 22

A Strategic Assessment

- Your Opportunities:
 - You're creating a long-term resource.
 - An endowment provides funds to capitalize on opportunities or expand strategically.
 - You'll have resources to respond quickly to critical and urgent needs.
 - You'll have resources to take on new ventures not covered by annual revenue.

Slide 23

A Strategic Assessment of the Task

- Your challenges:
 - Articulating the case for endowment and integrating that case into your messaging.
 - Finding the time to prioritize endowment and give it the attention it needs.
 - Changing the culture of your organization.
 - Positioning endowment to encourage donors to make annual, capital, and endowed gifts.


Slide 24

Ready to Go?

- **Step One:** Create a case for endowment
- **Step Two:** Build an infrastructure for endowment
- **Step Three:** Build the team to build endowment
- **Step Four:** Market the endowment and begin to talk with donors
- **Step Five:** Make a plan to create and build endowment and set goals


24

Slide 25



Step One:
Making the Case for
Endowment


Slide 26



The Case Statement

- o The internal case for support:
 - Start by building the case among staff and board
 - Why do you need endowment?
 - Take the board through the exercise of answering these questions:
 - o Do you have a long-term purpose?
 - o Do cyclical economic variances impact annual fund?
 - o Do you have new programs you want to pursue – but no dollars?


Slide 27



The Case Statement

- o The questions, continued:
 - Do you anticipate future needs not currently funded?
 - Is there more competition for annual gifts?
 - Are you dependent on grants?
 - Are you losing donors through mortality, or a move from the community?


Slide 28



The Six Greatest Concerns

- How can we hold money for the future, when there are so many needs today?
- We will appear rich.
- We don't want restrictions on gifts.
- Won't endowment giving hurt annual giving?
- These gifts seem complicated.
- This process costs money.


Slide 29



The Case Statement

- The external case – why donors should give
 - Should inspire vision
 - Should inspire passion
 - Should be urgent
 - Should involve the donor

Slide 30



Step Two: Building an Infrastructure to Support Endowment

Slide 31

The Perfect Profile for Success

- An organization that has been in existence for at least 8 to 10 years.
- A history of strong program growth.
- A growing fundraising program.
- Stable nonprofit staff.
- A financial officer with an understanding of and ability to manage endowment.
- Commitment of the board of directors.

Slide 32

A Survey of Managers: The Most Common Problems

- Administrative costs that are too large a percentage of revenue
- Proliferating and scattered funds
- Managing the paperwork
- Allocating restricting funds to designated purposes and proving it
- Funds that outlive their purpose
- Negative investment returns
- Litigious donors

Slide 33

The Endowment Structure: Form

Type of Entity	Pros	Cons
Segregated account with the charity	Low cost Flexible	Vulnerable Changing boards Liability
Stand alone foundation	Protection from liability and spending Separate board	High cost to create and operate Under scrutiny Takes time
Community Foundation	Does everything Visible and credible	Not your assets Little input


Slide 34

Other Issues

- Consolidation
 - Can't manage easily if funds are scattered
 - Must distinguish between true and quasi-endowment
 - Put your hands on endowment documents
- Designated gifts
- Need policies:
 - Size
 - Limited purpose
 - Accounting cost

Slide 35

One Solution




Slide 36

Allow Gift Options at All Levels

Level of Giving	Designation of Use	Recognition
\$1 - \$49,999	May designate sector	Recognized in year of gift
\$50,000 - \$249,999	May designate sector	Recognized in year of gift and annually in association with sector
\$250,000+	May designate sector and purpose	Recognized in year of gift and annually


Slide 37



Gift Acceptance Policies

- o Primary benefit is to maintain discipline, while opening doors to additional assets
- o Often come late in a development program as charities move beyond cash and marketable securities
- o There is organizational and board liability for mistakes.


Slide 38



Gift Acceptance Policies – Why?

1. Decisions on a case by case scenario are inconsistent.
2. The glittering appeal of the gift obfuscates good judgment.
3. Without policies, you may send mixed signals to donors.
4. Good policies will keep donors from making mistakes.

Slide 39



Spending Policies

- o Spending policy for endowed funds
- o Principle distributions from quasi-endowment

Slide 40

Clear Investment Policies

- Laws governing investment management
- Check state law
- UMIFA - 1972
- UPMIFA - 2006
 - Change in prudence standards standards for investment
 - Change in spending policy requirements - historic dollar value
 - Changing and releasing the use or purpose of fund

Slide 41

Other Considerations


- Adopt written investment policies that guide asset allocation, restrictions on risky assets, and clear objectives and statements of risk.
- Articulate your goals for the investment manager.
- Use a qualified professional manager
- Monitor the manager.
- Do not invest in an asset you cannot understand.

Slide 42

The Endowment Agreement

- The importance of shared expectations
- Creating flexibility
- Solving problems with current documents
 - Typical problems
 - Investment restrictions
 - Distribution restrictions
 - Small funds
 - Options in solving problems
 - Document solutions
 - Living donors
 - Statutory solutions
 - Judicial solutions

Slide 43



Accounting and Accountability


- Reporting to stakeholders
- Getting the work done
- Internal management
- Third party firm for management

Slide 44



Step Three: Building the Team

Slide 45



Building the Endowment Team

- Be patient – endowments and legacies take time
- Remember you're working with your best donors
- Build a well-informed, motivated, inspired team
- Each individual should understand the role they play in success

Slide 46

The Role of the Board

- Engage in planning
- Participate in endowment design
- Ask questions!
- Ensure accountability
- Review regular report on progress
- Support process in budget
- Provide support in outreach
- Adopt policies, including ethics
- Consider a gift!

Slide 47

The Role of Staff: CEO

- Drive strategic planning
- Oversee case statement and Deferred Giving Plan
- Ensure board is on board
- Make regular reports to board and staff
- Recruit planned giving committee
- Draft resolution to commit gifts to endowment
- Assign oversight of endowment
- Create endowment agreements
- Set goals
- Prepare gift proposals
- Report gifts
- Support calls

Slide 48

The Role of Staff - CFO

- Review administrative requirements
- Make checklist for endowment support
- Work with gift acceptance committee
- Work with investment committee
- Prepare quarterly and annual investment reports
- Follow through on receipt of gifts

Slide 49

The Role of Staff - Development Officer

- Training
- Infrastructure
 - Gift acceptance policies
 - Endowment policies
 - Investment policies
 - Trained staff
- Endowment management
- Prepare marketing materials
- Provide support in accepting and designing gifts
- Work with counsel to create endowment agreements

Slide 50

Role of Volunteers

- Embrace learning curve!
- Learn to articulate the case
- Consider a personal gift
- Gift thought to the impact of your gift
- Make the calls!
- Get help when you need it
- Work with CEO on case statement and endowment plan
- Identify budget needs
- Commit to annual goals
- Close gifts


Slide 51

Final Thoughts

- You are taking on a critically important role
- You have great support - and a passionate audience
- Stay on track - use your plan - stay engaged
- Questions?


51

Slide 52



Step Four: Marketing to Donors


Slide 53



Opportunities for Donors

- Creating a Legacy is a joy – not a burden.
- Donor can select the charity and purpose for the endowment gift
- The gift can involve or honor family
- The gift should fit within context of other planning
- Opportunity to give back
- Opportunity to change the world

Slide 54



Challenges to Donors

- It is uncomfortable to talk about bequests or death – “I’ll take care of it later.”
- How do I balance family with charity?
- Where do I start?
- Why do you need the money?
- I’m not wealthy.
- This is complicated.
- My family doesn’t live here.

Slide 55

The Many Facets of Donor Motivation

- o A commitment to your organization because of its role
- o Commitment to "give back"
- o Services provided
- o Contribution to quality of life
- o Personal gratitude for success

Slide 56

The Many Facets of Donor Motivation

- o Memorial
- o Facilitating change
- o Desire to influence or control activities
- o Guilt
- o Tax incentives

Slide 57

Type of Gift Vehicles Used

Type of Gift	% Who Have Created
Capital campaign	64.6%
Bequest	41.2%
Stocks/mutual funds	31.8%
Created foundation	19.5%
Created donor advised fund	15.9%

Slide 58

Important Motivations for Giving	
Motivation	% of Respondents Citing
Meet critical needs	86.3%
Giving back to society	82.6%
Reciprocity	81.5%
Bring about a desired impact	68.5%
Nonprofits should do what government cannot do	64.4%

Slide 59

Factors That Would Prompt Additional Gifts	
Factor	% of Respondents Citing
Spent less money on administration	74.8%
Donor can determine impact of gift	58.3%
Donor felt more financial secure	52.0%
Donor received better return on investments	46.6%
Donor not already financially committed	40.2%

Slide 60

- Center on Philanthropy at IU Bequest Study
- Report in March 2007
 - Combined high net worth with surveys in Indiana, St. Louis, Memphis
 - Goal to identify potential bequest donors, and donor motivation
 - 48.4% had a will
 - FindLaw 44.4% (2002)
 - NCPG 42% (2000)

Slide 64

Identifying the Best Prospects

- Internal:
 - Multi-year donors
 - Members
 - Major gift donors
 - Long-term leadership
 - Long-term volunteers
 - Current board
 - Corporate leadership
 - Staff

Slide 65

Finding the Best Prospects


- External
 - Community investors
 - Always start internally

Slide 66

Educating Prospects (Marketing)

- Integrating the Legacy Message in Current Platforms
 - Annual report
 - Website
 - Annual fund solicitations
 - Substantiation and "thank you" letters
 - Stationery
 - Newsletter
 - Board meetings
 - Annual appreciation luncheon


Slide 67



Setting Expectations

- o Keep the endowment and its impact visible year round.
- o Its all about expectations and communication.
- o Position endowment as part of your organization's success.
- o Ask donors to participate.
- o Make it clear that donors at all levels can have a significant impact.


Slide 68



Communication

- o Board reports
- o Website
- o Development materials
- o Newsletters, magazines, other platforms
- o Stay in touch with donors and their families

Slide 69



**Step Five:
Making a Plan and Setting Goals**

Slide 70

Create a written plan

Action Steps	Who's in Charge?	Staff/Vol. Needed	\$\$ Required	Timeline
1				
2				
3				
4				

Slide 71

- Create a Written Plan
- Incorporate the results of the assessment of infrastructure and readiness
 - Don't forget other key elements
 - Address the budget
 - Assign a timeline
 - Commit to ongoing reporting
 - Update progress quarterly
 - Track progress internally with a one page report
 - Report progress externally by thanking donors and reporting impact

Slide 72

Final Thoughts and Questions
