

What is an Endowment?

- An endowment fund is a permanent fund established by the organization where donors can make a gift to it, knowing that their gift will be held in perpetuity. **Only the annual earnings from the fund may be used to carry on the organization's programs and facilities.**
- It is the permanency of this fund that makes it so valuable. **Only through a growing endowment will your donors/friends know that the organization's programs and services will be there for generations to come.**

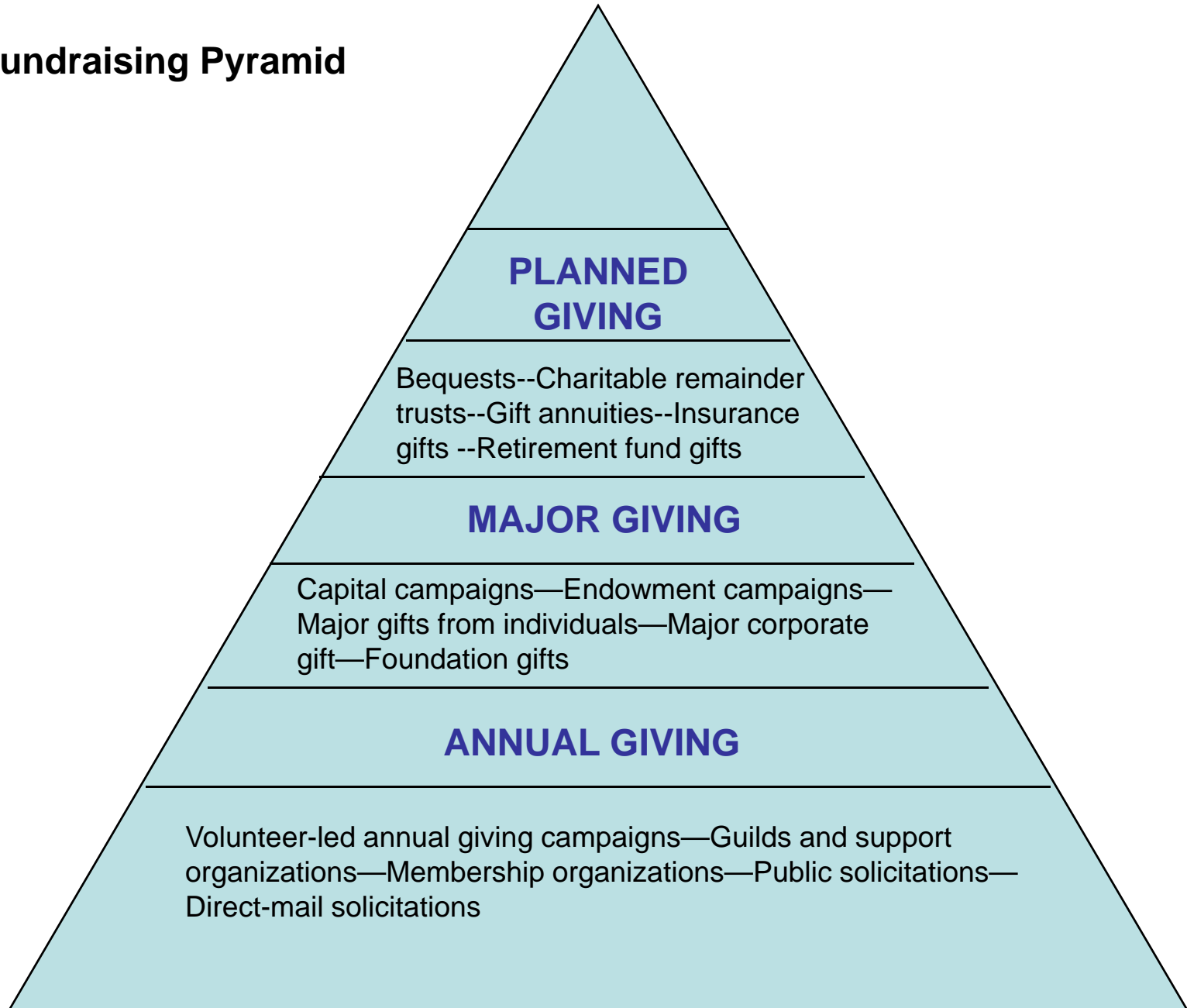
Basic Concepts

- Many endowments are created by accident rather than planned
- Most gifts to endowments are given out of accumulated assets—not disposable income
- Donors will generally support endowments where they have had a meaningful relationship.
- Actively provide those donors with opportunities to volunteer and support.
- Help donors find ways of making planned gifts that helps them achieve their own long-range objectives—the right vehicle makes the “BIG” difference.

Types of Endowments

- **True Endowment** – Holds both restricted and unrestricted funds; Principal may not be spent; Income is defined as dividends, interest, rental income, realized and unrealized capital gains.
- **Quasi-Endowment** – Funds are committed to long-term use by board resolution. Principal may be spent. Board governs distribution of income and withdrawal of principal. Includes unrestricted bequests or planned gifts, surplus funds at year end or from sale of an asset
- **Term Endowment** – A gift restricting the use of the principal for a specific period of time.

The Fundraising Pyramid



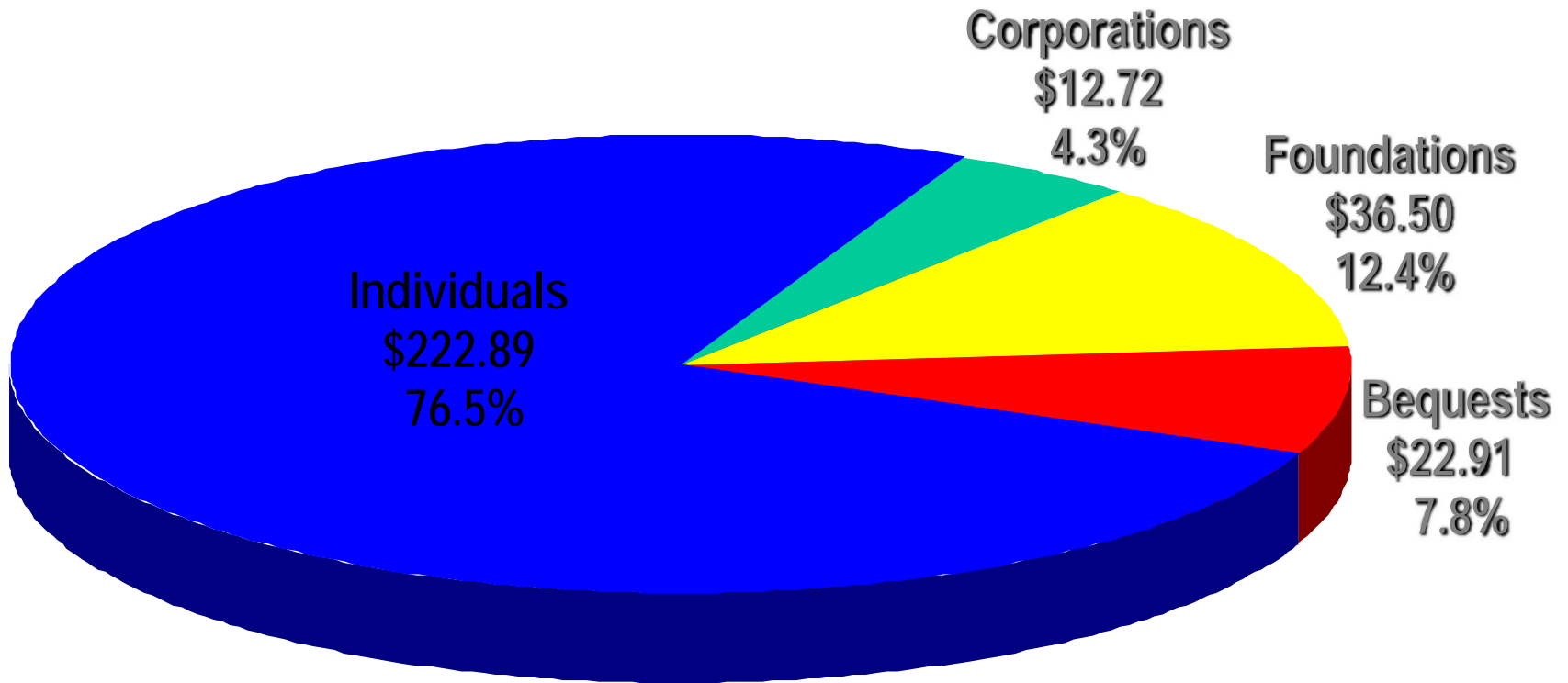
Problems with Annual Funding

- Downturn in charitable giving by individuals
- Shrinking government funding
- Private and public foundations reducing their funding
- **THE RESULT:** *Shrinking* budgets – *Shrinking* programs – *Shrinking* staff

GIVING USA

\$295.02 BILLION

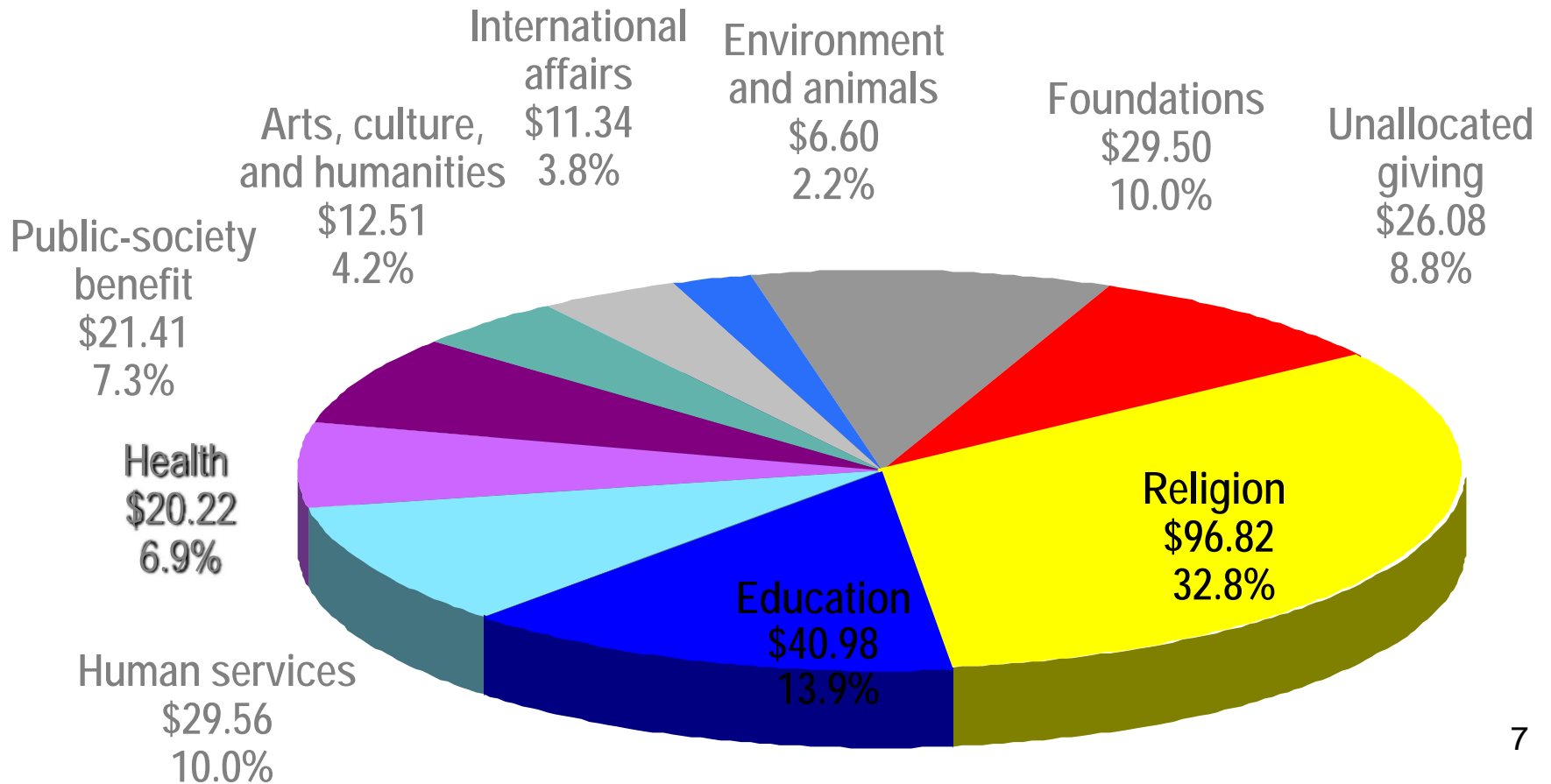
Sources of Contributions



GIVING USA

\$295.02 BILLION

Uses of Contributions



What's a Nonprofit to Do?

Develop a more stable and
reliable source of funding

Benefits of an Endowment

- Stabilizing force in the organization's future
- Regular income stream
- Emergency Funds
- Donor opportunities
- Sustainability
- Financial Security

Prior to Launching an Endowment

- Board of Directors have to be committed
- Organization must:
 - have strong sense of identity and clear mission
 - have “something to sell”
 - be able to communicate a compelling case for support
 - be able to estimate the endowment potential among its current donors, and then
 - build the endowment with gifts from existing donors
 - must have solid donor stewardship and communication systems

What are the first step?

- Endowment Policy
- Investment Committee
- Investment Policy
- Endowed Funds Policy
- Spending Policy
- Gifts Agreement

Endowment Policy

Establish guidelines on how to handle.....

- Proceeds from bequests
- Distributions from charitable remainder trusts
- Proceeds from retirement plan beneficiary designations
- Proceeds from life insurance beneficiary designations
- Proceeds from gift annuities (current/deferred)

Investment Committee

Responsible for.....

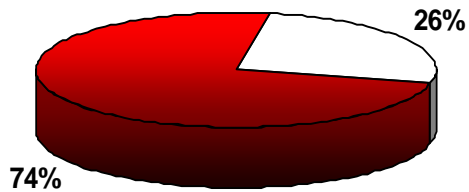
- Selecting the investment manager
- Determining asset allocation goals
- Monitoring investment performance
- Creating Investment Policy Statement
- Determining risk tolerance

Investment Policy

- Investment Guidelines/Investment Policy Statement (IPS)
 - Defines average annual real return over 3 to 5 year period
 - Defines criteria for Bonds
 - Defines criteria for Equity
 - Sets appropriate benchmarks for comparison
- Total return concept
 - Interest, dividends, capital gains and losses, sales proceeds from real estate
- Spending Policy
 - Usually over a trailing 12 quarter (3 yr) rolling average market value
 - Generally 4% to 6%
- Investment Style/Asset Allocation Model

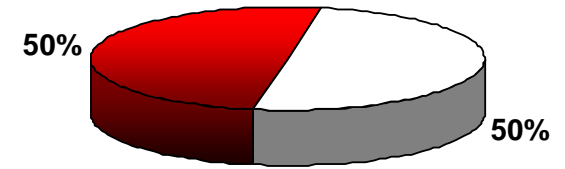
Current Asset Allocation Models

Income



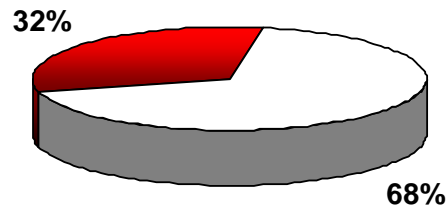
□ Equities ■ Fixed Income

Conservative Growth



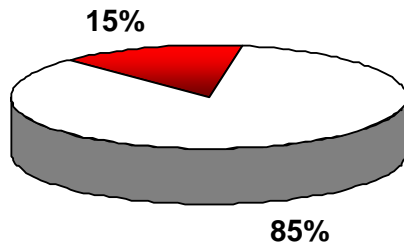
□ Equities ■ Fixed Income

Moderate Growth



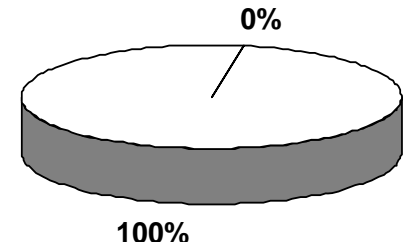
□ Equities ■ Fixed Income

Growth



□ Equities ■ Fixed Income

Aggressive Growth



□ Equities ■ Fixed Income

Spending Policy

- Determines how much of your total return you can spend each year
- Prevents you from spending 100% of the return from the permanently restricted portfolio
- Allows the permanently restricted endowment to grow at least with inflation
- Typical policy is to spend 4 to 6% of the market value of the portfolio
- Assuming that the portfolio grows at 8 to 9% per year, there is something remaining for growth of the portfolio

Calculating Endowment using a “Total Return” Spending Policy

	Year 1	Year 2	Year 3
Endowment value, start of year	\$500,000	\$608,000	\$721,724
+ growth @ 8%	\$40,000	\$48,640	\$57,738
+ new contributions	\$100,000	\$100,000	\$100,000
= endowment's total value	\$640,000	\$756,640	\$879,462
- disbursements (5% over 3-year average)	\$32,000	\$34,916	\$37,935
= total value, end of year	\$608,000	\$721,724	\$841,528

Most Common Endowment Gift Options

Outright Gifts

(Current Campaign Needs)

Gift's that Pay Income

(Deferred Campaign Needs)

Deferred Gifts

(Deferred Campaign Needs)

Cash	Charitable gift annuities	Insurance beneficiary designations
Publicly traded stocks; bonds; mutual funds	Charitable remainder trust	Retirement plan beneficiary designations
Privately traded stocks and bonds	Pooled income fund	Bequest under will
Tangible personal property		Bequest under will substitute (such as a revocable trust)
Real Estate		Family Foundation pledge
Gifts of remainder interest in home or farm		Qualified conservation contribution
Intellectual property gifts		
Bargain sales		
Insurance policy		

Ideas for Marketing your Endowment

- Develop a plan and a case statement
- Create Newsletter articles with charts and graphs
- Annual reports
- Listing of endowed funds (different levels of giving)
- Endowment specific brochures (Leave-A-Legacy)
- Determine prospects to call on personally
 - Face to Face meetings produce best results

Remember.....

- Make three-part asks for specific gift
 - Continue your annual gifts (**current income**)
 - Make a major commitment now for capital (**current assets**)
 - Put us in your estate plan (**estate assets**)
- Ask people to endow their annual gifts (Rule of 20)
- Match donor with specific ask

Recognition and stewardship: WHY?

- Keep donors happy
- Make sure they know how important their gift is
- Don't let them think you take things for granted
- Demonstrate to everyone that you keep faith over the years with donor wishes

Action steps

- “Describe” your endowment
- Create giving/naming opportunities
- Market endowment broadly
- Keep endowment in mind when talking with individual donors
- Remember that planned giving is a major component

Why Planned Giving?

- Endowment will never fade away
- Focus on “naming opportunities”
- Endowment is a “legacy gift”
- Estate planning creates legacies
- Adding the estate planning component allows you to ask for a larger gift
- Your long-term goals match donors goals

Conclusions

- Endowments are important
- Mechanics of endowment operation are critical
- Planned giving can play a major role in endowment fundraising
- Endowment must have size and shape and form

• **Thank you**