

A blueprint for measuring your organization's

ENDOWMENT READINESS

Sandra B. Wood, LLC

Hartford Foundation
Nonprofit Support Program
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What are YOUR needs?

- Why did you come today?
- What do you hope to take with you?

WHY DO YOU WANT AN ENDOWMENT?

➤ Stabilization...

Organization must BE stable to build an endowment; it builds on existing strength

➤ Growth...

Organization must be stable AND endowment plans must support mission to grow successfully

➤ Image...

See above

I. Defining Terms and Goals

- Three key types of philanthropic revenues:
 - Annual support
 - Reserve funds
 - Endowment funds

FUND DEVELOPMENT RESOURCES

Endowment: the last component of a comprehensive development program.

After the Annual Fund...

After a cash reserve fund...

DEFINITIONS

Annual Support:

Funds raised (annually) for current use. Usually unrestricted, these funds are available for programs, operational expenses, anything the organization needs *now*.

DEFINITIONS

Endowment:

“A fund of money, the principal of which is held in perpetuity and invested and from which an organization may use only the return on investment.”*

*Edward C. Schumacher, Building Your Endowment

DEFINITIONS

- Endowment is permanent & inflexible:
 - “Often donors have restricted these funds so that the principal cannot legally or ethically be used to cover day to day expenses.”*

* Boardsource, Financial and Fundraising Issues FAQ's,
<https://boardsource.org/resources/financial-fundraising-issues-faqs/>

DEFINITIONS

Reserve Funds:

Flexible “savings” that “come from the accumulated surpluses of the organization over time, and can usually be designated or allocated by the board.”*

*
Boardsource, Financial and Fundraising Issues FAQ's,
<https://boardsource.org/resources/financial-fundraising-issues-faqs/>

DEFINITIONS

- *Reserves (like Annual Fund revenues)* can be spent to expand programs and run the organization, while endowment usually can't.

DEFINITIONS

“Board-Designated” endowment:

a hybrid of endowment and reserves. The Board can designate surplus operating funds, unrestricted gifts or other funds that are in the board’s control as endowment.

NOTE: If the board can designate, a future Board can later UNdesignate it. Why not just call it a Reserve Fund?

DEFINITIONS

Annual	Reserve	Endowment
Current use	Current or future use	Future use
Expendable	Expendable when necessary	Permanent
Immediately available funds	Invested short-term and flexible	Long-term growth; only income spent

HOW MUCH \$ WILL YOU NEED?

You calculate what is available to spend from your endowment each year as a % of principal, typically no more than 5%.

- This translates to \$20 of endowment for every \$1 of operating income

HOW MUCH \$ WILL YOU NEED?

- Let's do the math:

$\$10,000$ of endowment $\times 5\% = \$500$

$\$100,000$ of endowment $\times 5\% = \$5,000$

And to collect $\$100,000$ of spendable income you need $\$2,00,000$ in your endowment.

HOW MUCH \$ IN RESERVE FUND?

- What is YOUR cash flow pattern?
- Many recommend 3 months' operating budget *or more*

II. CHECKING YOUR READINESS

- Preparing for an endowment program requires a commitment to support the initiative internally, and over a long time period.
- You are asking donors to make a permanent investment in your organization.

ORGANIZATIONAL READINESS FACTORS

- Mission Compatibility
- Financial Management
- Governance and Structure
- Fund Development

MISSION COMPATABILITY

- Is your organization's mission compatible with the concept of a permanent endowment? Is yours a "forever" mission?
- Are your long-term goals for using endowment income compatible with your mission?

FINANCIAL MANAGEMENT

- How financially stable is your organization?
 - ✓ Balanced budgets 3-5 consecutive years
 - ✓ Operating (and capital?) reserve funds (at least 3 months')
 - ✓ Clean audits
- Does your organization have a history of steady growth?

GOVERNANCE

- Are your board members committed to building an endowment by making personal contributions and promoting the endowment to others?
- Does your board have the expertise to fulfill its fiduciary obligations: to set criteria and monitor investment of an endowment?

ORGANIZATION RESOURCES

- Does your organization have a stable staff with at least one person able to support the endowment program?
- Is there a financial officer responsible for providing oversight of the endowment?

ORGANIZATION RESOURCES

- Have you budgeted for the resources -- money, time & expertise – you will need to raise and manage an endowment?
- Do you have the financial and data control to monitor separate funds with different purposes?

FUND DEVELOPMENT RESOURCES

- Does your organization have a complete, board-approved development plan?

FUND DEVELOPMENT RESOURCES

Endowment contributions come from individual donors.

FUND DEVELOPMENT RESOURCES

- Does your organization have a solid Annual Fund program with individual donors?
- Have you analyzed your past, current and prospective donor base? Are there endowment prospects?
- Do you have meaningful long-term relationships with your donors?

III. GETTING STARTED

After all of this analysis, is an endowment right for your organization?

Let's consider how you will build and manage the endowment.....

GETTING STARTED

- Building the endowment
- Policies
- Investment
- Planned Giving
- Training & Marketing

HOW TO BUILD ENDOWMENT

- Raise it
- Designate it from existing funds
(Are those truly unrestricted dollars?)
- Accept it when offered on appropriate terms

HOW TO BUILD RESERVE FUNDS

- Designate it from existing funds
(Are those truly unrestricted dollars?)
- Raise it
(...?? Tough to do)

POLICIES TO ESTABLISH

Board should establish an endowment policy on how it will treat endowed funds that are:

- a) raised
- b) designated
- c) accepted

NOTE: This will guide future boards unless they vote to change this policy.

POLICIES TO ESTABLISH

Board should establish a policy on how to treat unexpected, unrestricted gifts/bequests.

- Designate as endowment? Only for gifts over a certain amount?
- Spend? For what types of purposes?
- Be careful – these “windfall” gifts may be your primary source of endowment funds.

POLICIES TO ESTABLISH

Use of endowment funds:

(all dollars are NOT equal)

- If you solicit endowment funds, you ask for purposes you need.
- Donors can agree to those purposes, or restrict them. You can agree to accept their restrictions *or not*.

POLICIES TO ESTABLISH

- Use of Reserve Funds:

Board should determine permitted uses for reserve funds, leaving much flexibility. Some may simply define what reserve funds may *not* be used for (e.g. budget shortfall vs temporary cash flow...)

INVESTING ENDOWMENT

Identify your team of fiduciaries and managers:

- Board members
- Internal staff
- Non-board investment committee members
- Outside investment managers

INVESTING ENDOWMENT

Establish Investment Policies, perhaps with the support of a consultant or fiduciary:

- Spending policy
- Investment objectives
- Investment strategies
- Process to implement strategies

INVESTING ENDOWMENT

Spending Policy:

How much of your endowment will you spend each year?

Typical current spending: 5%

Note 1: Also determine the denominator – chosen percentage of WHAT amount will be spent? (e.g. How treat new gifts?)

Note 2: UMIFA overrules spending policy. Track original gift amounts.

PLANNED GIVING

Major sources of endowment contributions:

- Bequests, major and other planned gifts
- Board-designated funds

PLANNED GIVING

BEQUESTS:

- The simplest and most universal type of planned gift
- Any organization can solicit & accept them

PLANNED GIVING

GIFT ANNUITIES:

- The simplest type of life income planned gift for a donor
- NOT simple for an organization to offer

IV. A HELPFUL PARTNER

Hartford Foundation offers TWO opportunities to partner with them for help with some endowment fund options and with gift annuities.

Deb Rothstein, Vice President,
Development, HFPG

HFPG GIFT ANNUITIES

Participate in HFPG's Gift Annuity Program:

- Provides a gift annuity program customized for your organization.
- You benefit from the technical expertise of Hartford Foundation professional staff.

HFPG GIFT ANNUITIES

- Set annuity payments are paid to income beneficiaries for life.
- Hartford Foundation assumes all investment risk of annuities.
- Investment and management fees are paid from the annuity funds, not you.

HFPG GIFT ANNUITIES

- At end of beneficiary lives, 85% of funds remaining from original gift establish or add to a permanent endowment fund with income designated for the referring organization.

HFPG GIFT ANNUITIES

- The remaining 15% will be directed for HFPG discretionary grantmaking.
- The remainder value for all CGA agreements for your organization (or an outright gift) must combine to a value of \$50,000 to start in the program.

HFPG DESIGNATED FUNDS

HFPG manages 35 permanent designated funds for local nonprofits.

- One or more donors contribute to the fund to reach a \$10,000 fund minimum

HFPG DESIGNATED FUNDS

- Funds are owned by and remain at HFPG permanently (for legal reasons).
- Nonprofit receives annual distributions of spending amount and cannot request principal.

HFPG DESIGNATED FUNDS

- HFPG development staff helps nonprofits promote and build their funds.

V. Next Steps



TRAINING FOR ENDOWMENT

Plan for the training your organization will need for:

- Staff
- Board
- Other volunteers

TRAINING FOR ENDOWMENT

Selected Training Options:

- Professional literature
- HFPG's NSP training workshops
- Industry conferences
- Board retreats
- Peer support
- Consultants

MARKETING

Once your organization's endowment plans and policies are set, promote them actively to your constituents.

- Basic bequest program
- Active fundraising campaign

MARKETING

Donors should be notified of the board's policies on how it will invest and use endowment contributions.

- Solicitation and campaign materials
- Annual Report
- Board Minutes and policy memos
- Endowment fund agreements

SUMMARY

Readiness Factors:

- Mission
- Financial Stability
- Governance and Structure
- Fund Development Capacity

SUMMARY

- Endowment or Reserve Fund...or both?

SUMMARY

Establish key policies:

- Use of endowment funds
- Investment
- Planned giving

SUMMARY

- Designate reserve and/or endowment funds from surpluses
- Launch, or incorporate, an endowment campaign to your individual donors
- Incorporate planned giving (especially bequests)
- Partner with HFPG?

SUMMARY

➤ **Training**

➤ **Marketing**

REVIEW FOR DISCUSSION

A. Test your endowment motivation:

Is your endowment purpose, and the amount you need, appropriate given what you learned today?

REVIEW FOR DISCUSSION

B. Test your endowment fortitude:

Does your organization have the resources – human and financial – to manage and endowment program in addition to its primary work?

REVIEW FOR DISCUSSION

C. If you are not yet ready to launch, WHERE do you need to focus and WHAT will be your first steps?

REVIEW FOR DISCUSSION

D. If you conclude, now or later, that an endowment is not the right next step for your organization, what ELSE do you now think you need to do?

SUMMARY QUESTIONS?

- Final questions?

ENDOWMENT READINESS

HFPG Nonprofit Support Program

Sandra B. Wood

Sandrabwoodconsulting@gmail.com

(860) 978-0882

Deborah Rothstein

drothstein@hfpg.org

(860) 548-1888

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