Overcoming Challenges of Endowment Fundraising

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You work at a nonprofit that has an endowment. You know you should be part of the solution to grow it. Or perhaps you work at a nonprofit that doesn't have an endowment, but you think it's a missed opportunity that you want to rectify. What's holding you back? What institutional decisions are making your job harder? How can you get on with the business of closing transformational gifts to your charity?

The intention here is to demystify endowments and set out some best practices for fundraising for them. This article is primarily aimed at fundraisers but does contain ideas that will require coordination and implementation from other areas of your charity.

Let's start with what this article is not about. Reams have been written on investing assets for nonprofits, and a good subset of those pages are about investing for the very long term. We're not going to cover what's in your investment policy statement (although you should have one!), or how to choose the best firm to care for your funds.

Convince Leadership You Need an Endowment

If you fit into the category of working at a nonprofit that you think should have an endowment but doesn't, the first step is to convince leadership why you need an endowment. The purpose of endowments is to provide long-term support for a nonprofit's mission. Although fundraising for today's needs is critical and appropriately takes priority, adding to assets for the future is also important. Indeed, the income from past gifts that were saved, not spent, can be a significant fraction of an annual budget. For example, endowing a professorship of sufficient size to distribute salary and benefits to the operating budget each year takes pressure off current fundraising for faculty salaries. Making these sorts of cases around budgets is a first step toward getting leadership to recognize the value of an endowment.

Consider Housing Your Endowment with an Umbrella Organization
Endowments don't have to be difficult to start if you don't have one. In some cases, especially if you are a stand-alone nonprofit, such as a church parish, you may well be able to combine your funds with others you trust. Engaging the services of an umbrella organization, such as a diocese, for example, will help solve the challenge of how to start and manage your endowment. Community foundations can also be a good place to have endowment gifts housed for the benefit of your organization, although you don't "own" those funds in the same way as when you have your own endowment or make arrangements with an umbrella organization.

Ideas for Endowment Giving
One of the most successful techniques for asking for endowment gifts is discussing with donors how endowment contributions from other donors provide your charity with income every year that helps it carry out its mission. If the amount seems like a stretch, ask your donor to complete the gift over time (say five years) – this is typical for campaigns that include endowment growth objectives. While the endowed fund is growing, it will typically not pay out until it attains the desired amount, but most donors will see that as reasonable and perhaps accelerate future payments if they are ready to have your institution begin to put their fund to use. Another idea, sometimes implemented through a bequest, is to solicit a donor to endow their annual fund gift as their legacy. Asking for an endowment amount of 25 times their annual fund gift (assuming you have a 4% spending policy) can accomplish this goal.

Embrace Donor Restrictions, Within Reason
Allowing donors to fund their passions almost always multiplies the sizes of their gifts. Sometimes, though, you may need to tame the desires of a donor when they are in stark contrast to your organization's priorities, or perhaps its mission. This can be difficult, but with the proper internal controls, giving to restricted purposes can optimize the donor's satisfaction while meeting a need at your charity. In discussing a gift for which a donor requests restrictions, common sense says that you and your institution should do at least these few things every time:

- Make the minimum amount to create a restricted endowment fund more than for an unrestricted one – usually at least double.
- Have a simple signed agreement describing the restriction (in terms as broad as possible for the usage of the funds).
- Make sure that the agreement has an "out" clause that allows a future Board's unanimous vote to alter the use if, in their opinion, the charity can no longer honor

the original intent. Obviously, the new use should be as close as possible to the original use. This avoids legal challenges as times change and prevents funds from being wasted because the donor's purpose is no longer needed by the charity.

Even with these practices in place, it is never right to take the wrong donation – it is okay to walk away.

Ensure Appropriate Sub-Accounting

Establishing the framework for an endowment with sub-accounting is a key piece to a successful endowment.

If you're going to have multiple endowed funds, they should be invested in the same endowment pool, not separately. If your endowment is large enough, you may have more than one manager or more than one firm doing the investing, but all those assets should be consolidated for reporting purposes. This will result in the lowest fees and is the easiest way to keep track of the assets.

Whether you manage your own endowment or engage an umbrella organization, there is the responsibility to perform the necessary sub-accounting for your organization and for your donors. Separate accounting of the restricted funds to keep track of their individual values in the context of other funds and the unrestricted assets of the charity isn't hard to do yourself or to outsource to your bank or a third-party administrator, like PG Calc. Endowment sub-accounting is routine, is required by auditors, and shouldn't be done with a huge degree of creativity.

As gifts come in, they establish or add to a sub-account (donor fund); the sub-account purchases units of the whole endowment. Each sub-account is given credit for its share of endowment earnings and growth, and each is charged for its share of endowment fees, expenses, and losses. Spending (distributions) from each sub-account results in a subtraction of units and their associated market value. Ultimately, the charity should have a spreadsheet-style report for each accounting period; each line should represent a different sub-account, each with its share of all the relevant financial activities summarized in categories across the page. The report should have grand totals for the beginning and ending market values, as well as for each type of activity (contributions, income earned, distributions, and so on).

Donor Stewardship Matters

Your charity should know the value of each donor account and should report that value to the donor once a year. Transparency is always the best way to operate. That report can and should include the earnings and gains/losses, but most importantly, it should contain the amount that was withdrawn for use by your charity that year. This is usually done as part of the sub-accounting process.

This report is probably best used as an attachment to a warm letter that expresses gratitude for the fund and describes how it was used over the past year. If it is for a scholarship fund, include some thank-you letters from recipients. If funding research, it can include a report of progress of the doctor or lab. Providing numbers without the stewardship is a waste of time; stewardship that doesn't provide tangible evidence of ongoing distributions of income to operations is a lost opportunity for continued fundraising discussions with the donor and/or their family.

Conclusion

We hope that the ideas and guidelines in this article will help you and your organization increase your chances of growing your endowments significantly. Planned giving, either with a life income plan or any type of bequest, is a rich source for endowment gifts. Often an endowment is started during life, at least on paper, and sometimes gently funded. But end-of-life contributions to endowments are the engines that make nonprofits strong – we don't want you to miss out! This activity will help you to accept large gifts with reasonable restrictions on spending that can be transformative for your institution.

Want More on Endowments?

Save the Date – Tuesday, May 4th at 1:00 p.m.: Gary will be hosting a free info session, ***Tricks and Traps in Endowment Sub-Accounting***. Details to come.