

# **NONPROFIT ESSENTIALS**

## **Endowment Building**

**Diana S. Newman**



**John Wiley & Sons, Inc.**



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*This book is dedicated to my grandchildren,  
Kyle, Benjamin, Rebecca, Allison, and Gregory (ages 9 to 3)  
who, along with their children and their children's children—and yours—  
will benefit from the charitable endowments established by our generation.*



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# About the Author

**D**iana S. Newman is principal and founder of Philanthropic Resource Group, a consulting firm in Columbus, Ohio, that provides a broad range of fundraising and strategic planning services with an emphasis on planned giving and endowment building.

Before establishing Philanthropic Resource Group, Newman was Vice President for Advancement at the Columbus Foundation from 1990 to 1995. During her five-year tenure, the Columbus Foundation received gifts of \$135 million, a national record for community foundations at that time. In addition, more than \$250 million in planned gifts from 210 families were documented. From 1983 to 1990, Newman was the founding director of the Ohio Historical Foundation, the fundraising arm of the Ohio Historical Society.

In 2002, Newman authored *Opening Doors: Pathways to Diverse Donors*, published by Jossey-Bass and the winner of the 2003 AFP/Skystone Ryan Prize for Research. She is also a contributing author of *Cultures of Caring: Philanthropy in Diverse American Communities*, published in 1999 by the Council on Foundations and funded by the Ford, Kellogg, and Packard foundations. In addition, she wrote *Community Foundation Fundamentals* (2001) and *Resource Development for Community Foundations* (2002), faculty and student course guides for staff and board members sponsored by the Community Foundations

## About the Author

Institute, a joint project of the Council on Foundations in Washington, D.C., and Indiana University's Center on Philanthropy. Newman is a member of the National Board of Gift-Planning Consultants for *Planned Giving Mentor*, a newsletter for newcomers to gift planning published in Edmonds, Washington.

A frequent speaker, teacher, and facilitator at conferences across the country and abroad, Newman has given presentations for the American Red Cross, YMCA of North America, Alzheimer's Association, National Committee on Planned Giving, Council on Foundations, Association of Fundraising Professionals, Canadian Association of Gift Planners, National Conference on Black Philanthropy, and The Foundation Center. She was the keynote speaker at a philanthropy conference in Seoul, Korea, sponsored by the Beautiful Foundation in November 2003. Currently, Newman is working with the Ohio Arts Council on a project to assist three Chilean arts organizations headquartered in Santiago.

Newman is the cofounder of the original *Leave A Legacy* program in Columbus, a community-wide collaboration to encourage people from all walks of life to leave gifts to the charities of their choice. *Leave A Legacy* is now a North American program sponsored by the National Committee on Planned Giving in more than 70 communities in the United States and 21 in Canada.

Newman was president of the Central Ohio Planned Giving Council and served on the board of directors for the National Committee on Planned Giving. She is currently on the board of the Central Ohio Chapter of the Association of Fundraising Professionals, which named her as its 2004 Outstanding Fundraising Professional, and serves on AFP's International Research Council.

Her husband, Dennis, is an attorney. They have three children and five grandchildren.



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# Contents

Foreword	xiii
Preface	xvii
<b>1</b> Understanding Endowment	1
<b>2</b> Preplanning and Assessing Readiness for Endowment	29
<b>3</b> Developing the Case for Support and the Endowment Action Program	51
<b>4</b> Identifying, Cultivating, and Soliciting Prospective Donors	71
<b>5</b> Managing, Investing, and Establishing Policies	99
<b>6</b> Caring for Donors and the People They Trust	119
<b>7</b> Marketing the Endowment	141
<b>8</b> Measuring Success	167
<b>Appendix A</b> Uniform Management of Institutional Funds Act (1972)	185
<b>Appendix B</b> Sample Questions for Prospective Donors	190
<b>Appendix C</b> Model Standards of Practice for the Charitable Gift Planner	195
<b>Appendix D</b> The Donor Bill of Rights	199

## Contents

<b>Appendix E</b> Sample Acceptance Policies for Endowment Gifts	201
<b>Appendix F</b> Sample Investment Policies Template	212
Glossary of Endowment Terms	221
References	229
Index	231

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# Foreword

**T**he end of the twentieth century has been characterized by historians as a period of unprecedented economic growth. Philanthropic support across the board enjoyed new and higher levels of success. The growth in the financial markets of the 1990s decade provided the opportunity for charitable organizations not only to rejuvenate long-standing core programs, but also to initiate new and exciting ventures previously constrained by budgetary restrictions. As the century came to a close, charitable organizations were setting and achieving new fundraising records.

The beginning of the twenty-first century ushered in a dramatically different economic landscape. The “irrational exuberance” of soaring markets came to an abrupt halt as the broader financial markets “corrected.” Significant individual and corporate fortunes were lost virtually over night. The ripple effect was felt not only on personal and business levels, but throughout the third sector as pledge commitments and contributions fell. Hardest hit were those charitable organizations with little or no reserves to support increasing financial strains on the operating budget. For many organizations, it was, and continues to be, their endowment that has made the difference between sustained financial viability and painful hardship.

## Foreword

Endowment income provides critical long-term financial stability to support the people and programs that our charities serve. Indeed, the Harvard University endowment, valued at over \$23 billion at the end of fiscal year 2004, is a collection of more than 10,500 separate funds established over the years to provide financial assistance to deserving students; to maintain its libraries, museums, and collections; to support teaching and research activities; and to provide ongoing support for a wide variety of other programs and activities. These funds together generate almost 30 percent of Harvard's annual operating budget.

All of these separately endowed funds have one objective: to support initiatives not for just one year, or even one generation, but in perpetuity. Indeed, one of Harvard's earliest endowed funds was established in 1643 by way of a gift of one hundred pounds from Lady Ann Mowlson to provide a stipend for scholarships. Over 360 years later, her endowed fund continues to provide valuable support to some of the almost 70 percent of the Harvard undergraduates who receive financial assistance.

Equally as important as the use to which endowment income is applied, it is incumbent on charitable organizations to manage their endowments so that the purchasing power of the principal is protected from market downturns and from the corrosive effects of inflation. If charities are successful in doing this, endowment distributions will likely retain their value and impact for years, generations, and centuries.

Author Diana S. Newman, principal of Philanthropic Resources Group, is well qualified to identify and address the challenges of starting and building an endowment. I first met Diana when our paths crossed as volunteer board members of a national planned giving organization. Her extensive background in offering strategic planning, evaluation, and fundraising services for community foundations and other nonprofit organizations has served her well in meeting the challenges of writing about this important topic. Diana's useful

## Foreword

“Tips & Techniques” and “In the Real World” are especially helpful in placing theory in a context of practice.

This book is the most comprehensive and thoughtfully presented guide I have read on building endowments. I believe it will be especially beneficial to fundraisers in small and mid-sized organizations who have been charged with building an endowment on top of a myriad of other responsibilities. Experienced fundraisers, planned giving officers, CEOs, and volunteer leadership of nonprofit organizations who are reinvigorating or expanding an endowment-building effort will also find *Nonprofit Essentials: Endowment Building* an extremely valuable resource.

The case for initiating or expanding an endowment has never been more compelling. It is estimated that at least \$41 trillion will pass from one generation to the next by the year 2052. As endowments enrich the missions of the organizations we serve, Diana’s significant contribution will enrich our understanding of the importance and magnitude of the work that lies ahead.

Peter K. Kimball  
Director of Gift Planning  
Harvard University



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# Preface

In my first job as a professional fundraiser, I was charged with increasing net receipts from annual gifts, running a membership program, managing a 200-person volunteer corps, overseeing fundraising and recognition events, developing a capital campaign program, and writing grant proposals. And, oh yes, establishing an endowment.

As the sole member of the development staff—and even when the staff grew to seven professionals—I never got around to building the endowment because other tasks always took precedence, and I was not sure how endowments actually worked. How could I spend time building long-term relationships when there were so many other more pressing demands on my time? Why would donors give their hard-earned money to endowment, rather than to provide tangible help immediately? How could I justify working on gifts that might not be realized for years? Wouldn't a large endowment—if we had one—encourage donors to slack off on their annual giving? Where could I turn to learn about this seemingly complex topic, and what should I do first?

*Nonprofit Essentials: Endowment Building* is written to begin to answer these and many more questions about endowments that development officers ask. It is the book I wish I had had as I started my fundraising career. Instead,

I learned most of what I know about endowment building from experienced mentors, patient donors, planned giving seminars, experimentation with many strategies and tactics—and my mistakes. I hope the reader will have a shorter learning curve than I have had.

### **Purpose**

This is a practical guide in an easily digestible format for staff and board members of charitable organizations in the United States. It provides the background needed to assess whether and when to start an endowment building effort. It offers guidance to develop an Endowment Action Program appropriate to the needs and resources of each nonprofit organization. It suggests strategies to successfully establish and grow charitable endowments. Yet it is more than a how-to book; it is a how-to-think-about book. Although *Nonprofit Essentials: Endowment Building* contains many concrete suggestions, it also stretches the reader to think more broadly and deeply about discovering donors' values and helping them achieve their philanthropic dreams.

### **Audience**

Development professionals who have recently been assigned to either start or grow an endowment fund are the primary audience for this book. They may be employed by an established organization with a large development staff or by a small grassroots organization with a volunteer-led development effort. The principles of endowment building are the same, although the scope of the programs will vary.

Although *Nonprofit Essentials: Endowment Building* is written with the expectation that its readers already have development experience, those who are new to fundraising will benefit from this book as well. Many inexperienced fundraisers are in small and midsized organizations and have been asked to build an endowment while also raising current funds and tending to many

other fundraising tasks, as I was in my first job. These “newbies” will find basic information and encouragement in the chapters that follow to begin an effective, long-term endowment building program that will not overwhelm them or their organization.

Other people will find value in this book as well: executive directors and board members of nonprofit organizations that are considering beginning an endowment building effort; development officers who want to incorporate new endowment building programs into existing development efforts; and experienced planned giving or development officers in charge of building endowments who want to solve particular problems, look for examples of proven practices, or refresh their endowment building skills. Endowment fundraisers who want validation for their recommendations to the executive director or board members will find that support here.

## **Readers’ Return on Investment**

After completing this book, readers will be able to:

- Assess the organization’s readiness and commitment to building an endowment.
- Describe the pros and cons of proactively seeking contributions for the organizations’ endowment funds.
- Use a working vocabulary applicable to the endowment building field.
- Develop and carry out an Endowment Action Program appropriate to the organization.
- Identify, cultivate, and solicit prospective donors to the endowment.
- Establish critically important policies and procedures.
- Understand and discuss the issues related to management and investment of the assets.

- Provide appreciation to and recognition of donors for their support and commitment.
- Work with allied professionals to help donors achieve their charitable goals.
- Market the endowment to likely prospective donors and their professional advisors.
- Measure the success of the endowment building program and share meaningful data with the board and other stakeholders.

## **Overview of the Content**

Chapter 1, *Understanding Endowment*, serves as an introduction to the book by describing the value of the endowment to the organization, the donor, and the fundraiser. It defines the three kinds of endowments and the importance of understanding the vocabulary of endowment. A primer on the kinds of gifts available to donors is included, intended to demystify the technical terms associated with endowment building and planned giving. A brief history of endowment points out that endowments have helped provide charitable services since the Roman Empire—and are becoming increasingly important to nonprofit organizations today.

Chapter 2, *Preplanning and Assessing Readiness for Endowment*, begins by describing the prime factors in successful endowment programs and the kinds of organizations that should not establish endowments. It discusses the training and experience needed by development officers for endowment building work and the process to assess an organization's readiness to undertake a program to establish or increase its endowment. It also describes the importance of identifying endowment champions and engaging volunteers.

Chapter 3, *Developing the Case for Support and the Endowment Action Program*, sets forth the importance of a written program, of enthusiastic support from the board of directors, and of a compelling case for endowment support.

## Preface

It describes options for the structure of the endowment fundraising program, staffing and budget considerations, and development of the Endowment Action Program.

Chapter 4, *Identifying, Cultivating, and Soliciting Prospective Donors*, describes how to identify qualified prospective donors and the values and motivations that may lead them to make endowment gifts. The importance of wealth, age, family circumstances, giving history, and race and ethnicity are discussed. This chapter lists the pros and cons of various strategies to cultivate prospective donors, emphasizing the critical importance of personal, face-to-face visits with prospective donors by staff and volunteers. In addition, it presents techniques to close gifts and ways to follow up with donors after gifts are completed.

Chapter 5, *Managing, Investing, and Establishing Policies*, lays out options for the important task of managing and investing the assets of the endowment and monitoring investment performance. It also offers concrete suggestions for developing a comprehensive Endowment Policy Manual, with examples in the Appendix.

Chapter 6, *Caring for Donors and the People They Trust*, offers practical tips for responding to inquiries from prospective donors, acknowledging gifts, and recognizing donors. It discusses donor stewardship issues and demonstrates ways to encourage contributions from specific groups of donors and to work with family members and professional advisors.

Chapter 7, *Marketing the Endowment*, focuses on communicating the endowment's case for support to various market segments. It describes the advantages (and disadvantages) of particular marketing strategies and tools, and lists considerations for selecting the most appropriate strategy for a particular group of prospective donors. It also lays out compelling themes and messages about the endowment.

Chapter 8, *Measuring Success*, concludes the book by describing ways to measure and report the activities undertaken to generate gifts to the endowment and the results of those activities. It offers a format to report the endow-

ment's revenue, investment results, projections, and confirmed expectancies. In addition, it describes measurements of performance, which are especially important to review annually, because gifts may not actually be received for years.

At the end of the book are the Appendixes, containing useful documents and materials referred to in the text; the Glossary, a compilation of words defined throughout the book as well as the most common terms used in endowment building literature; and the References, a list of publications used in its preparation. An Index is included as well.

## **How to Use This Book**

Readers who are new to the field of endowment building will receive the most benefit from the book by reading it in sequential order, from cover to cover. Board members and CEOs of nonprofit organizations that are considering beginning an endowment building program will find Chapters 1, 2, and 8 to be particularly helpful. Planned giving and development officers who want to solve particular problems with their endowment building efforts may want to look in the Index for specific issues or examples of proven practices. This book can also be used as a refresher course for those who have been involved with endowment building for a long time and want to update their skills.

Throughout *Nonprofit Essentials: Endowment Building*, the reader will find that “In the Real World” sections provide practical examples of how nonprofit organizations have addressed specific issues. “Tips & Techniques” sections offer guidance on how to handle specific situations and concrete steps to solve particular problems.

## **Acknowledgments**

I am indebted to family, friends, colleagues, and clients for the wide variety of gifts they have bestowed on me: permitting me to work with them in achieving their charitable goals; collaborating with me in growing endowment funds for

organizations; demonstrating effective tactics and skills while we worked together shoulder-to-shoulder, and sharing stories, insights, and experiences that have influenced and enriched my own endowment building efforts.

I especially thank three colleagues in Columbus who read early drafts of this manuscript and offered valuable advice for improvements and clarifications: Doug Allinger, founder of Allinger and Company, Inc.; Laura MacDonald, president of Benefactors Counsel; and Mike O’Sullivan, senior vice president for development at Children’s Hospital Foundation. I’m also grateful to Susan Axelrod, a colleague on the National Board of Gift Planning Consultants for *Planned Giving Mentor*, for tackling the job of collecting stories for the “In the Real World” sections of the book.

I met Peter Kimball, director of gift planning at Harvard University, through our joint service on the board of the National Committee on Planned Giving. He graciously accepted my invitation to write a Foreword to the book. Thank you, Peter.

My last and most heartfelt acknowledgment is reserved for my husband of 40 years, Dennis, who supported me throughout the process of developing this book with his red pen, great cooking, and incomparable back rubs.

## **Disclaimer**

I am not an accountant, attorney, financial planner, insurance professional, investment broker, or realtor. I am a fundraiser. Nothing in *Nonprofit Essentials: Endowment Building* should be construed as legal or financial advice. Please review legal or financial matters with qualified professionals.

## **The Shift to Endowment Building**

Development officers who have recently moved into endowment building often need to adjust their mindsets, shift their thinking. They may have been accustomed to working with annual donors, who are often motivated to make

## Preface

a \$100 gift because of the needs of the organization or its clients. They may be used to major gift donors, who may make a \$10,000 gift because of interest in a particular program, the opportunity to see their names on a plaque, or peer pressure. The \$1 million endowment donors, however, are primarily concerned with what they want to accomplish in their lives and with the legacies they will leave to the community.

Jim Gillespie, with CommonWealth Consultants in Indianapolis, says that moving from being an annual fund development officer to being an endowment gift officer is like moving from selling Saturn sedans to Lamborghinis—the development officer is not selling transportation any more. In fact, the development officer is not selling at all. He or she is helping people fund their dreams and perpetuate their values.

Those who are successful in endowment building understand the differences in this kind of fundraising. The skills needed in the annual fund office are not necessarily transferable to endowment building; new skills are needed. *Nonprofit Essentials: Endowment Building* will help development officers, and others involved in the endowment building process, acquire and become comfortable with these new skills and new ways to approach their work.

# Understanding Endowment



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**After reading this chapter, you will be able to**

- Define the three types of endowments.
- List the benefits of endowments for the organization, its donors, and its fundraising staff.
- Describe how endowment building and planned giving work together.
- Understand kinds of endowment gifts and gift vehicles—and their benefits.
- Review the history of endowments from ancient times to the present.

*Life is not a “brief candle.” It is a splendid torch that I want to make burn as brightly as possible before handing it on to future generations.*

—George Bernard Shaw