



Hartford Foundation
FOR PUBLIC GIVING

A Beginner's Guide to Nonprofit Endowments

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Topics to be covered

Types of funds – annual, reserve and endowment

What an endowment is, and what it does and does not accomplish

How an endowment would fit within your fund development program

How to determine if and when you are ready to build an endowment

How endowment funds are raised, and what alternative options exist
Planned Giving

The Hartford Foundation's role in supporting nonprofit endowments

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

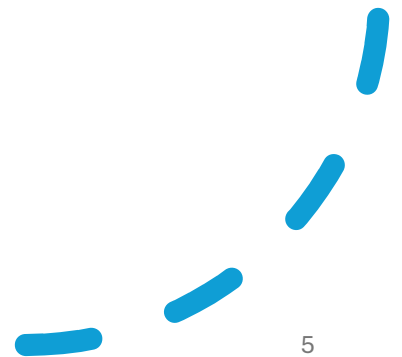
DEFINITIONS

“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.

What is an Annual Fund?

- An annual fund is support received each year (annually) for the current use of the organization. It is usually unrestricted. These funds are available for programs, operational expenses, or anything else which the organization deems as necessary.

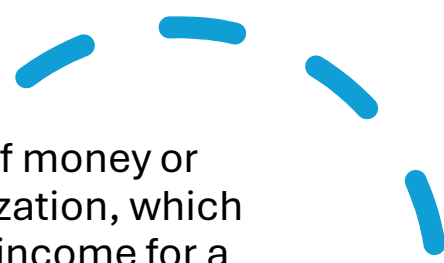


What are Reserve Funds?

- Reserve funds are a portion of money set aside from regular operating funds, essentially acting as a "rainy day fund" to cover unexpected expenses, income fluctuations, or emergencies, allowing the organization to maintain operations even during challenging financial times; they are considered unrestricted funds that can be used for any necessary purpose by the board's discretion.



What is an Endowment?

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- An endowment is a donation of money or property to a non-profit organization, which uses the resulting investment income for a specific purpose.
 - "Endowment" can also refer to the total of a non-profit institution's investable assets, also known as "principal" or "corpus," which is meant to be used for operations or programs that are consistent with the wishes of the donor.
 - Most endowments are designed to keep the principal amount intact while using the investment income for charitable efforts.



What is an Endowment?

An endowment is permanent and inflexible. There are two types of endowment funds.

Restricted endowments

- The donor specifies how the principal and investment income can be used in cooperation with the organization
- The principal is invested, while the earned income is used for the donor's specified purpose
- The restriction is usually permanent, unless the donor specifies otherwise



What is an Endowment?



Unrestricted endowments

- The donor allows the nonprofit to use the investment income as they see fit
- The funds can be spent, saved, invested, or distributed as the institution chooses
- Unrestricted funds can be a reserve that helps protect the nonprofit's core mission



What an endowment is not

An endowment is not good for situations where an organization needs immediate access to large sums of money to address current needs.

The primary purpose of an endowment is to provide a long-term, sustainable income stream by only allowing access to the investment earnings, not the principal, which can be restricted for specific uses and may not be readily available in times of crisis; essentially, it's not designed for quick fixes or rapid response to urgent situations.

When might an endowment be appropriate?

Long-term sustainability:

When an organization wants to ensure its mission can be sustained far into the future by generating consistent income from investments.

Specific program funding:

When a donor wants to dedicate funds to a particular program or area of research with long-term goals.

Established organizations:

When an organization has a stable financial foundation and is looking to secure future funding for ongoing operations.

Why an endowment might not be suitable



LIMITED LIQUIDITY: DUE TO RESTRICTIONS ON ACCESSING THE PRINCIPAL, AN ENDOWMENT MIGHT NOT BE ABLE TO PROVIDE FUNDING WHEN AN ORGANIZATION NEEDS IT MOST, ESPECIALLY DURING EMERGENCIES OR SUDDEN SHIFTS IN OPERATIONAL NEEDS.



FOCUS ON THE FUTURE, NOT THE PRESENT: BUILDING AN ENDOWMENT PRIORITIZES LONG-TERM FINANCIAL STABILITY OVER ADDRESSING IMMEDIATE CHALLENGES OR OPPORTUNITIES.



POTENTIAL FOR DONOR RESTRICTIONS: DONORS MIGHT SPECIFY STRICT GUIDELINES ON HOW ENDOWMENT FUNDS CAN BE USED, LIMITING FLEXIBILITY IN ALLOCATING FUNDS TO CURRENT PRIORITIES.



CANNIBALIZE OTHER FUNDRAISING EFFORTS: THE FOCUS ON BUILDING AN ENDOWMENT MIGHT DIVERT ATTENTION AND RESOURCES AWAY FROM OTHER CRITICAL FUNDRAISING ACTIVITIES AIMED AT MEETING IMMEDIATE NEEDS.



ENDOWMENT READINESS

A blueprint for measuring your organization's endowment readiness

What are your needs?

Why did you come today?

What do you hope to take with you?

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.

FIVE ORGANIZATIONAL READINESS FACTORS

- Mission Compatibility
- Financial Management
- Governance and Structure
- Gift Acceptance Policies
- 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?

Policies to establish



The diagram consists of two large, stylized arrows pointing towards each other. The left arrow is orange and points right, containing text about establishing an endowment policy. The right arrow is green and points left, containing text about the use of guidelines. The background features a series of concentric, wavy lines in a light gray color.

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

- Raised
- Designated
- Accepted

These guidelines will be used by current and future boards unless they vote to change that policy. If working with a community foundation to manage your funds, make sure your guidelines work in tandem with the foundation's policies.

Importance of Written Gift Acceptance Policies



Gift Acceptance Policies

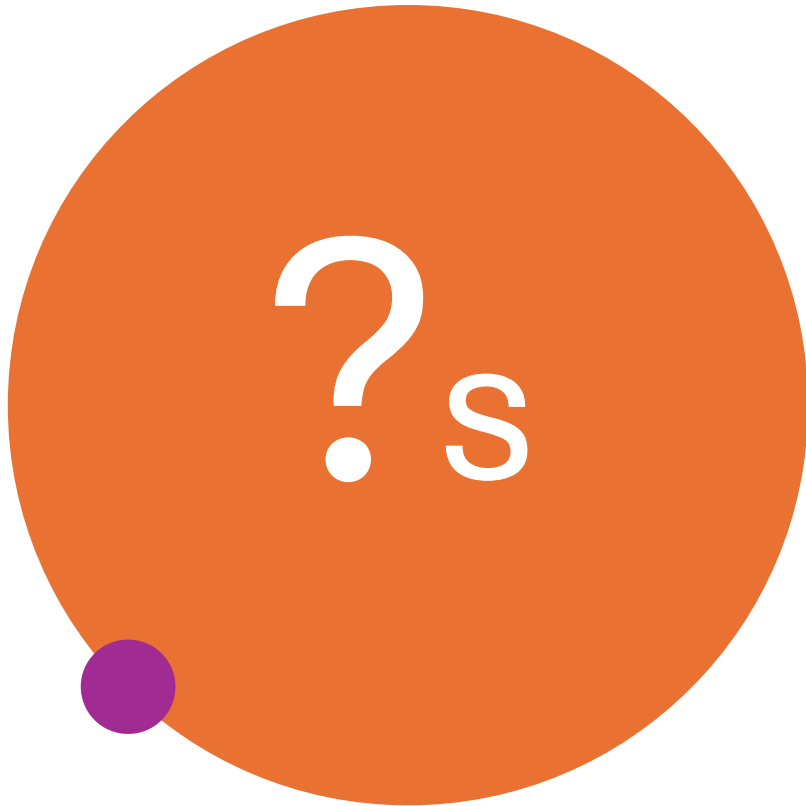
A portion of the non-profit's by-laws that clearly defines the types of gifts it can and cannot accept
Most relevant when donors offer unusual highly valuable or in-kind non-cash gifts



Review existing gift policies to ensure all donations meet the guidelines



A written gift acceptance policy can help manage the expectations of donors (while treating them with respect) and also serve as guidance for board and staff members who are on either the asking or receiving end of contributions.



Questions?



Fund Development 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?

Endowment contributions come from individual donors.

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?

Raising Funds from Individual Donors For Endowments

- No gift should be in lieu of an annual commitment
- Discussion of designating for an approved project or program
- Discussion of adding to a general, unrestricted endowment to support annual operating needs of the organization
- Opportunity to create the “ultimate gift” through a legacy commitment in support of the endowment
- Multi-year commitments

Use of existing funds

- Board approval – is this the best use of the funds?
- Confirm that funds will not be needed in the next few years to meet annual needs
- Recognition that, once moved, they are no longer available on an as-needed basis. Only the earned income will be able to be used per established policies

PLANNED GIVING/LEGACY

What is a legacy gift?

A legacy gift is a planned donation to a charity given at a future date through a will or other form of designation.

It is a decision that each person makes in their own financial planning process, taking into consideration their charitable wishes, values and priorities.

There are a number of Legacy/Planned Giving commitments which can be received from your donors.



Legacy Commitments

Outright Gifts:

Bequest –
gift through
a will;

Investment
account
beneficiary

Retirement
assets (IRA
beneficiary)

Life
Insurance
policy

Real Estate

Legacy Commitments

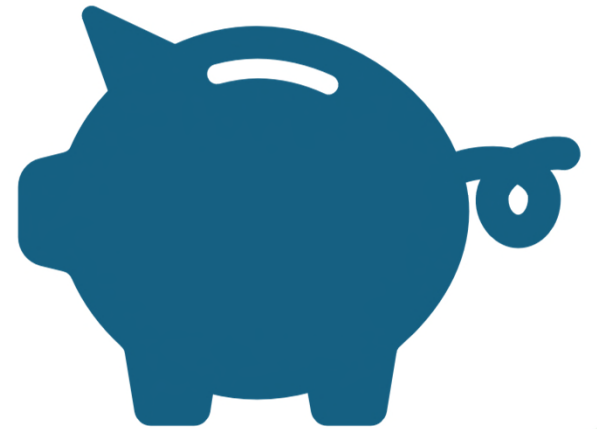
Deferred Gifts

- Charitable Remainder Trust
- Charitable Lead Trust
- Charitable Gift Annuities

Planned Giving Options

A bequest is a commitment you make through your Will or Estate Plan that leaves funds to a charitable organization and/or individuals of importance to the donor. These gifts count as charitable estate contributions.

- A donor may designate a set dollar amount to a charity. These funds may be either unrestricted for the organization's general purposes or designated for a specific program, project or restricted or endowment.
- Donors may opt to leave a percentage of their residual estate to a charity. This means that if there is anything left after all distributions specified in their will are met, whatever is remaining comes to the charity in the percentage indicated.
- Donors may designate a charity as a beneficiary of their Retirement Account or investment accounts.



Planned Giving Options, cont'd

Life Insurance Policies: A donor may leave a charitable organization as the beneficiary of their life insurance policy. Generally, whole and universal life policies are used. There are 3 ways this can be done.

- Assign the policy to be received upon death – the donor maintains the policy and pays all premiums. There are no charitable lifetime benefits.
- Assigns the policy to the charity. The charity takes ownership and the donor continues to pay the premiums during their lifetime. The donor receives charitable tax deductions for the premium payments.
- Assigns the policy to the charity and the charity opts, with the consent of the donor, to turn the policy into the insurance company for the current face value of the policy.

Planned Giving Options, cont'd

Real Estate

Donors may choose to designate property to a charity either during their lifetime or upon their death. It is highly recommended that a formal real estate committee of the charity be formed to evaluate the property at the time of the donation to determine if accepting this gift is in the best interests of the charitable organization.

Planned Giving Options, cont'd

Charitable Trusts – there are 2 types of trusts which can benefit a charitable organization.

- Charitable Remainder Trust – an irrevocable trust that allows donors to make a tax-deductible gift to charity while receiving income for life or a specified period, with the remaining assets eventually going to the charity.
- Charitable Lead Trust – an irrevocable trust where a donor transfers assets to a trust, and the trust pays income to a charity for a set period, with the remaining assets eventually going to the donor or their heirs.

Planned Giving Options, cont'd

Charitable Gift Annuities are one of the simplest planned gifts to make. In return for a donation to the charity, the donor receives an income for life. The percentage received is based on the donor's age.

While this is a simple gift for the donor, investing and administering this gift can be more involved which is why many organizations choose to use a community foundation to take the gift on their behalf.



Qualified Charitable Distribution

Individuals aged 70 ½ and older are able to make distributions to qualified charities from their IRA's.

All contributions made directly to the charitable organization are not taxable to the donor, nor is it able to be considered for an itemized deduction on their income tax return.

Qualified Charitable Distribution

These funds may be used for:

- General operating support; or to create a
 - Designated fund;
 - Field of interest fund;
 - Scholarship fund; or
 - Unrestricted fund

Up to a maximum of \$50,000 may be used to make a one-time gift to establish a charitable gift annuity. These funds may not be used to establish or add to a donor advised fund.

Types of Funds available through the HFPG

TYPE OF FUND	DESCRIPTION	MINIMUM CONTRIBUTION
Unrestricted	Donors authorize the Foundation and Board to direct grants wherever the greatest needs arise.	\$10,000
Field of Interest	Designed to accomplish a broad charitable goal or purpose such as improving healthcare.	\$10,000
Donor-Advised	Enables donors to recommend grants to local, national, and international programs.	\$10,000
Designated	Donors specify one or more organizations to receive all or a percentage of grants from the fund annually.	\$10,000
Individual Scholarship	Donors specify selection criteria and may participate in the selection process of the scholarship candidate.	\$50,000
General Scholarship	A named award within the Hartford Foundation's four-year scholarship program.	\$10,000
Community College Scholarship	A named award within the Foundation's community college scholarship program.	\$10,000

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The background is a dense collage of overlapping, torn-edge sticky notes in various colors including teal, green, purple, yellow, and blue. Each sticky note features a large, black, hand-drawn question mark. In the center of the image is a large, white, semi-transparent circle. To the left of this circle, there are several short, horizontal blue dashes. To the right, there is a single solid orange circle.

THANK YOU!

QUESTIONS?