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FROM THEORY TO PRACTICE: HOW TO BUILD A NONPROFIT ENDOWMENT

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TABLE OF CONTENTS

FROM THEORY TO PRACTICE:
HOW TO BUILD A NONPROFIT ENDOWMENT

I. An Overview of the Session

Is it time to get serious about building an endowment? The economic environment of the last decade has focused all nonprofits on the need for endowment. However, creating an endowment or building an existing endowment can be a daunting task. In this session you'll learn how to transform your endowment goals to a clear work plan that will engage your board, your volunteers, and your donors in your organization's long-term success.

This session will cover the following:

- Clarifying the role of endowment in advancing your nonprofit's mission
- Articulating the case for endowment, both internally and externally
- Creating a strong endowment platform for endowment management
- Positioning the endowment in the community
- The tools to use in building endowment
- How to talk with donors about endowment
- Creating a work plan to take you to your goals

Ten years ago, an endowment signaled an embarrassment of riches. Nonprofit organizations that held endowments were chastised for holding funds rather than spending those dollars on critical current community needs needs. As a result, boards were often ambivalent about an endowment, torn between the need to justify its existence and spending the assets to meet current needs. Now endowments are a sign of a fiscally responsible, well-prepared and forward-looking nonprofit, ready to weather economic downturns and ensure a long-term survival.

Endowments have never been more important than today. Gift income is down for many nonprofits in the current economic environment. Government grants are down because of the diminishing tax revenues and pressure on budgets. Corporate and foundation grants are down. Stock gifts are down. Those nonprofits that cannot count on an endowment resource in difficult times may be forced to cut staff and programs, or even cease to exist.

Building a strong endowment is a proactive, not reactive, process. The organization must have clear goals, spending policies, asset building strategies and an investment management process that reflects those objectives.

II. The Role of Endowment

A. Defining Endowment

The term "endowment" is broadly used throughout this discussion to describe funds set aside for the long-term benefit of the nonprofit (rather than for current operations). While operating funds are generally invested in cash equivalents and short-term bonds to maximize current income, endowment funds are invested in equities and longer-term bonds to achieve growth and an increasing stream of income.

1. The Need to Define Endowment

One of the difficulties in having a discussion about endowment is that each nonprofit defines the concept in its own way. This leads to confusion when comparing practices among institutions or trying to establish a baseline for moving forward.

One of the difficulties in discussing and marketing endowment is that each individual and charity defines the concept in its own way. Endowments may be separately held funds within the charity, or separately established nonprofits holding long-term funds, generally referred to as supporting organizations to the charity. This leads to confusion when comparing practices among institutions or trying to establish a baseline for moving forward.

Some charities define the concept using a statutory legal definition and include only those funds legally restricted as endowment. Others have not attempted to define the term at all and have funds comprising "endowment" scattered among a variety of accounts, each with its own investment structure. Therefore, the first step in creating a successful endowment is to define the term.

2. The Legal and Practical Definitions

There is no real legal definition of endowment. The following dictionary entries are common:

> *endowment* n. the creation of a fund, often by gift or bequest from a dead person's estate, for the maintenance of a public institution, particularly a college, university, or scholarship.[1]
>
> **ENDOWMENT**: The bestowing or assuring of a dower to a woman. It is sometimes used: metaphorically, for the setting a provision for a charitable institution, as the endowment of a hospital.[2]
>
> **Endowment:** A permanent fund bestowed upon an individual or institution, such as a university, museum, hospital, or foundation, to be used for a specific purpose. Endowments may be separately held funds within the charity, or separately established nonprofits holding long-term funds, generally referred to as supporting organizations to the charity.[3]

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1 http://legal-dictionary.thefreedictionary.com/Endowments.

2 http://legal.laborlawtalk.com/endowment.

3 Investorwords.com, www.investorwords.com/1707/endowment.html.

3. Types of Endowment

There are three types of arrangements generally referred to as endowments: true endowments; quasi-endowments; and term endowments.

a. True Endowment

A true endowment consists of funds permanently set aside (by document or otherwise legally restricted) to generate income for the nonprofit. Principal may not be spent. Income may be narrowly defined as the dividends, interest, and rental income from the endowed assets, or more broadly to include realized or unrealized capital gain, depending on state law and the governing document for the funds.

When a donor or a court limits the use of endowed funds to a specific purpose, the endowment gift is considered restricted. When the donor leaves spending discretion to the nonprofit, the gift is considered unrestricted. Most endowments consist of a pool of unrestricted funds as well as many small groups of restricted funds pooled for investment purposes.

EXAMPLE: Jerry Jones left a bequest of $250,000 to Northwestern University to provide scholarships for Chicago students attending Northwestern with grade point averages of 3.8 or better on a 4.0 scale. His will specifically provided that the corpus of the gift was to be preserved and that income only was to be used for scholarships.

b. Quasi-endowment

While a permanent endowment has restrictions on the use of principal, a quasi-endowment does not. Quasi-endowed funds are funds committed to long-term use (endowment) generally by board resolution. Board-restricted funds may include unrestricted bequests or planned gifts received by the nonprofit, surplus funds available at year-end (that are not needed for operating reserves), or funds resulting from the sale of an asset. Since the donor did not restrict the funds, the board can remove its self-imposed restriction and make the principal available for use. Normally, the board will establish procedures to govern distribution of income and withdrawal of principal.

EXAMPLE: Jerry Jones left a bequest of $250,000 to Northwestern University. Although he had contributed to the scholarship program throughout his life, he placed no restrictions on the use of the bequest gift. The board of the University, after discussion, decided to allocate the funds for scholarship purposes to reflect Mr. Jones' lifelong interests.

c. Term Endowment

A term endowment is a gift in which the principal is restricted for a specific period of time or term. For example, a donor may create a gift for ten years to benefit a particular university program, or to fund a need for a limited period of time. Alternatively, a donor may contribute funds to amortize a bond issue and tie the term to the life of the bonds. After the expiration of the time, the board may use the principal or allocate it to a quasi-endowment.

d. Pooled Endowments

Nonprofits pool endowed funds to achieve efficiency in investing the assets. Pooling endowed assets requires special accounting – either by use of an internal spreadsheet or other software – to segregate and track income from restricted funds or term-endowments. Tracking can be difficult when the endowment has hundreds of sub-accounts and income restrictions vary from fund to fund. Therefore, most nonprofits establish minimums for restricted funds and term endowments such as $50,000 to $100,000.

B. Why Is There So Much Talk About Endowment?

Many charities that never considered endowment in the past are now realizing a perpetual pool of invested funds may be critical to long-term survival. Consider these factors:

1. The Economy is Tough and Taking a Toll on Donors

The economic news has been uncertain or gloomy since 2000. Lower stock values, higher gas prices, fewer jobs, and the related economic turmoil have affected all donors. Even the wealthy – especially those holding concentrations in financial stocks, automotive stocks, mortgage backed bonds, or real estate – are feeling the pinch.

The nature of financial markets is to move to reflect current economic conditions and fears, but markets have been particularly erratic since 2000. As a reminder, annual returns from 1999 through 2012 are shown in Table 1 and 2. The tables do not tell the full story. Mid-market fluctuations, the reduction or elimination of dividends, and tight credit markets have created even greater uncertainty for donors.

TABLE 1
MAJOR INDEX RETURNS 1999 – 2005

INDEX	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*
DJIA	25.22%	-6.18%	-7.1%	-16.76%	25.32%	3.15%	-0.61%
S&P 500	19.53%	-10.14%	-13.09%	-23.37%	26.38%	8.99%	3%
NASDAQ	85.5%	-39.29%	-21.05%	-31.53%	50.01%	8.59%	1.37%
DJ World	31.54%	-17.36%	-21.02%	-15.63%	38.58%	19.23%	14.4%
Barclays LT Treas.	-15.13%	20.11%	3.5%	14.62%	1.38%	5.06%	2.7%
ML Muni Master Bond Index	-6.34%	18.1%	4.5%	10.73%	2.54%	5.45%	3.9%
Barclays Corp. Bond Index	-1.89%	9.1%	10.7%	10.17%	8.31%	5.41%	2%

TABLE 2
MAJOR INDEX RETURNS 2005 - 2013

INDEX	INDEX	2007	2008	2009	2010	2011	2012	2013
DJIA	16.29%	6.4%	-33.8%	18.8%	11%	5.5%	7.3%	26.5%
S&P 500	13.62%	3.5%	-38.5%	23.5%	12.8%	0%	13.4%	29.6%
NASDAQ	9.52%	9.8%	-40.5%	43.9%	16.9%	-1.8%	15.9%	38.3%
DJ World	23.01%	11.8%	-46%	37%	10.1%	-16.3%	13.6%	13.3%
Barclays LT Treas.	1.85%	10.2%	20.64%	-13.17%	9.37%	34.01%	0.87%	-13.33%
ML Muni Master Bond Index	4.4%	4.18%	0.54%	9.4%	2.52%	10.64%	5.56%	-2.19%
Barclays Corp. Bond Index	4.3%	4.56%	-6.54%	18.68%	9%	8.15%	9.82%	-1.57%

Low interest rates have also impacted donors. As interest rates have declined, the interest paid on bonds, certificates of deposit, checking accounts and other fixed income instruments that seniors and retired donors rely on for living expenses has also declined. For a look at how those rates have fluctuated over the last decade, see Table 3.

TABLE 3
PRIME RATES, QUARTERLY, 2000 – 2013

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Jan 1	9.5%	4.75%	4.25%	4%	5.25%	7.25%	8.25%	7.25%	3.25%	3.25%	3.25%	3.25%	3.25%
Apr 1	8%	4.75%	4.25%	4%	5.75%	7.75%	8.25%	5.25%	3.25%	3.25%	3.25%	3.25%	3.25%
July 1	6.75%	4.75%	4%	4.25%	6.25%	8.25%	8.25%	5%	3.25%	3.25%	3.25%	3.25%	3.25%
Oct 1	6%	4.75%	4%	4.75%	6.75%	8.25%	7.75%	5%	3.25%	3.25%	3.25%	3.25%	
Dec 1	5%	4.25%	4%	5%	7%	8.25%	7.5%	4%	3.25%	3.25%	3.25%	3.25%	

2. Government Grants are Disappearing – Greater Needs with Less Available Funds

The National Association of State Budget Officers conducts a "The Fiscal Survey of States" each year, and the most recent was published in Fall 2012. [4] The report estimates that even though state revenues are slowly increasing, at least 24 states will have lower budgets in 2013 than in 2008. Looking at state budgets in the aggregate, spending is sill below the $687.3 billion peak experience before the recession, and well below the $735 billion representing the 2013 inflation-adjusted equivalent of that peak. There are two other factors that may impact states. Sequestration may reduce funds available in a variety of areas, and The Affordable Care Act may require additional state spending.

The American Recovery and Reinvestment Act of 2009 pumped $135 billion into state budgets so that steeper cuts were not required - but most of this funding ended in 2011 - meaning there are still many lean years ahead. Earlier National Association of State Budget Officer Reports project the state services experiencing cuts often include:[5]

- Public health programs
- Programs for the elderly and disabled
- K-12 education
- Colleges and universities
- State work force

States governments are not the only government experiencing revenue problems. The Federal government's debt is now at an historically high level. This has resulted in a dramatic decrease in funding for many of its ongoing programs and grants. At the same time, counties and cities are reducing the charities funded because of the dramatic drops in property taxes, sales taxes, and license taxes. Organizations dependent upon these government grants are scrambling to find other ways to fill the gaps.

3. Private Foundation Grants Are Shrinking

As the financial markets have fluctuated - especially in the 2008 downturn - private foundations lost significant asset market value. Private foundations – the source of most foundation grants – are required to make an annual distribution equal to five percent of their investment assets. If a foundation fails to distribute the full five percent, it has until the end of the following tax year to do so or a still penalty is imposed. These grants are also decreasing for two reasons:

1) A decrease in the financial markets means a decrease in the foundation's assets, resulting in a smaller 5% required distribution calculation.

[4] "The Fiscal Survey of States, Fall 2012," National Association of State Budget Officers (NASBO), 444 North Capital Street, Suite 267, Washington, DC 20001-1512, www.nasbo.org.

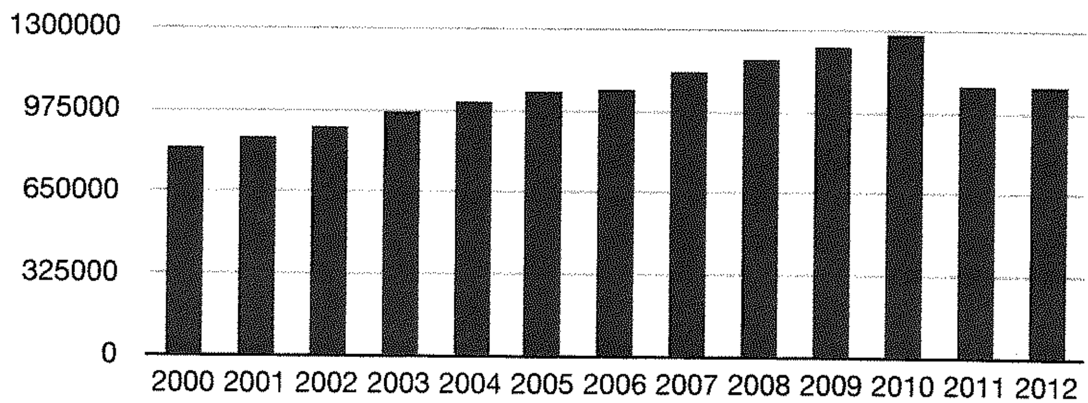
[5] Johnson, Nicholas and Elizabeth Hudgins, "Facing Deficits, Many States are Imposing Cuts that Hurt Vulnerable Residents," Center on Budget and Policy Priorities (July 2, 2008), www.cbpp.org.

2) Foundations are making grants on a more conservative basis to protect their investment base. This means fewer serial grants, reduced grantmaking for those foundations that have over-distributed in the previous five years and have credits, and even delayed grant payouts.

4. The Number of Charities Reaching Out To Your Donors Is Increasing

If it seems as if there is more competition for the donor's philanthropic dollar, there is. The most recent count of nonprofit organizations in the IRS Data Book shows a steadily increasing number of nonprofits as shown in Table 4. These figures do not include 300,000 to 400,000 churches and similar organizations not required to file for tax-exempt status. The figures dropped off in 2011 because the IRS removed approximately 250,000 charities from its rolls for failure to file annual tax returns.

TABLE 4
NUMBER OF NONPROFIT ENTITIES 2000 - 2012[6]



5. Boards Have a Fiduciary Duty to Prepare for the Future

Charities are perpetual entities, and have long-term purposes. The boards of those organizations are responsible for ensuring the charity achieves its mission in the most effective manner and ensuring there are sufficient funds for operations. When a drop in current revenue results in a reduction of staff and services, it leaves dependent clients unserved. If this continues year over year, the board has compromised its fiduciary duty. One way to protect the organization against dips in income.

C. Does Your Nonprofit Need an Endowment?

There is no purely objective test that leads an organization to decide to establish an endowment. The following questions may help a board remain focused on objective, rather than emotional, issues in making the decision. Positive answers to any of these questions may lead the organization to consider the creation of an endowment:

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[6] 2013 IRS Data Book, www.irs.gov.

- *Does the organization serve a purpose or need that is likely to exist on a long-term basis?*
- *Do cyclical economic variances impact the receipt of annual or special event gifts?*
- *Does the organization face increasing operating costs?*
- *Does the organization currently have new programs related to its purpose that cannot be operated because they lack funding?*
- *Does the organization anticipate future needs for programs that may not be met for lack of funding?*
- *Does the organization face increasing competition for annual gifts?*
- *Is the organization dependent upon government or private grants for its organizational expenses? .*
- *Has the organization lost major annual gifts through attrition of its donors?*

D. The Link Between Endowment and Planned Giving

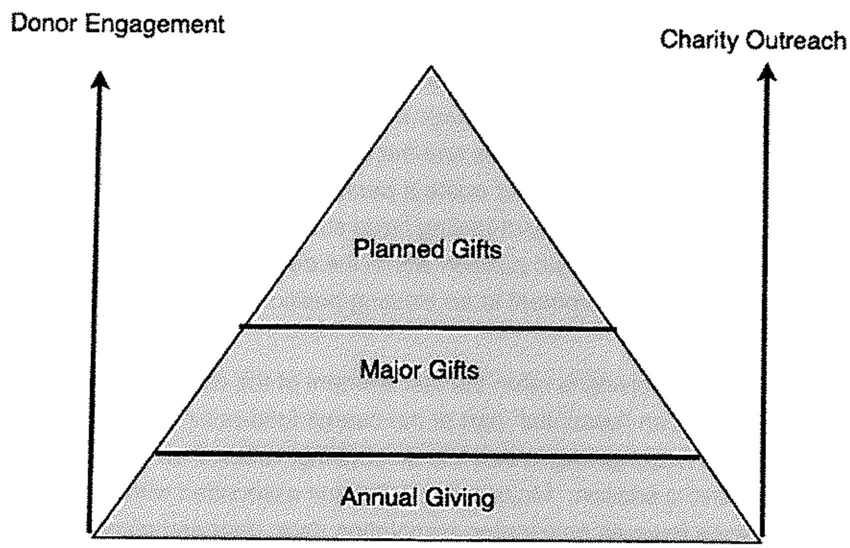
A diversified fundraising platform that includes planned gifts is not simply a nice idea – it is an essential concept for building endowment, weathering long-term economic changes, and supporting the growth of healthy, expanding, evolving programs. Most charities are focused on current programs – following the easiest paths for funding available. These may be funded by government grants (federal or state funding), membership revenue, direct mail revenue, or a few "angel" donors. Sooner or later, this easy funding structure will give way and your charity may be left without critical funds.

It is very difficult to build endowment when you are in crisis, you are forced to cut staff and programs, and your future is at stake. The best time to begin to build a strong, diversified fundraising program is when your charity is stable, your board is engaged, and you have the time to establish the critical structure and messaging.

The clearest model of how planned giving relates to an organization's fund raising is found in James M. Greenfield's book *Fund-Raising Fundamentals.*[7] That model reflects a progression of giving based on a donor's relationship with the charity. Table 5 summarizes this model which focuses on the role of increasing engagement by your charity, and the increasing commitment on the part of the donor.

[7] Greenfield, James M., *Fund-Raising Fundamentals: A Guide to Annual Giving for Professionals and Volunteers* (1994, John Wiley & Sons, Inc.)

TABLE 5
TRADITIONAL DONOR PYRAMID



The sections of this pyramid can be described as follows:

- **Membership.** Many organizations have members, those who make annual contributions to ensure they have access to the organization's services. While this involves an annual financial contribution, memberships are generally perceived as contributions in exchange for services rather than philanthropic gifts.

- **Annual Giving.** Annual Giving is the most basic fund-raising function and is designed to raise funds for annual operating costs. Most of the development officer's efforts in the annual campaign are dedicated to identifying potential donors. Annual campaigns may take the form of calling, letter writing, direct mail, or personal solicitation. Large numbers of volunteers and personal contacts generally breed success.

  More advanced annual gift programs incorporate special events, membership societies, and support groups. Special events come in all forms and sizes. The event may be as simple as a raffle, conducted through a mail campaign, or as complex as an event attracting thousands of participants.

  Direct mail and public solicitations may also be one method of reaching donors outside the normal circles of the charity. Strategies will depend upon the size of the potential donor base, the funds available for the campaign, and the number of volunteers available to the nonprofit. Ultimately, these efforts raise money, identify donors and educate donors but they do not ask much of a donor beyond a small contribution of cash.

- **Major Giving.** Major giving also gets significant attention from nonprofits due to the size of the potential gifts. Major giving, which takes the donors to the next level of interest and involvement in the nonprofit, may be a part of a capital, endowment or annual campaign. The solicitation of a major gift requires a great deal of planning and preparation. Your organization must develop a strong case statement for support. This case statement must be based upon a clear organizational mission and a long-term strategic plan. The solicitor must conduct research on the donor, the donor's family, the donor's goals and the donor's case history. And finally, the development officer and calling volunteer make a personal visit to ask for the gift. Major gift solicitations represent an efficient way of raising large sums of money and identifying new donors. Many nonprofits now staff a major gift position within the development office, or assign responsibility for major gift development to an existing position.

- **Planned Giving.** Planned giving is often the last element of the development plan, although it is rapidly taking its place as an "essential" part of the overall fund-raising effort. Planned giving differs from annual and major giving in that it is an ongoing, rather than an event oriented activity. Annual campaigns have a season. Major gift solicitations associated with capital campaigns or endowment campaigns have an anticipated completion date. Planned giving continues through all other campaigns and exists in the absence of a campaign. Planned gifts are generally the result of an ongoing relationship between the nonprofit and the donor. Donors that invest in the future of the charity through a planned gift must have confidence that the mission is important, that the charity will continue to meet that mission in the future, and that the donor's gift is critical to the ability of the charity to discharge that mission. Where a major gift requires confidence in present leadership, a planned gift requires confidence in future leadership.

E. A Strategic Assessment of the Task

Before preparing a plan, it is important to make an assessment of your strengths, weaknesses, opportunities and challenges in building endowment. This will allow you to build on your strengths and maximize your opportunities, while planning to overcome your weaknesses and addressing your challenges in your implementation plan.

1. Your Strengths

1) Your nonprofit is visible in the community, and can show an impact on lives and an impact on the community over your time in operation.

2) You have an opportunity to network with other development officers pursing endowment and support each other.

3) You know the needs of of your organization well and its vision for the future.

4) You have an active fundraising program on which to build.

5) You have years of information about your donors.

2. **Your Weaknesses**

1) You may be new to the process of building endowment. You may not have the infrastructure and policies to support the process, or a board that understands the issues.

2) You may have limited staff.

3) Further, you may not be trained in the more complex gift transactions that add flexibility and range to donors in making endowment gifts.

4) You may not have the time to build the infrastructure, assemble and manage the volunteer team, and expand the marketing.

3. **Your Opportunities**

1) Through your endowment, you can create a long-term resource that allows you to sustain your programs and outreach through periods of revenue fluctuations. This allows you to grow staff and programs without the fear you may have a year requiring layoffs or service pull backs.

2) An endowment provides funds to capitalize on opportunities, or expand strategically.

3) An endowment provides the resources to respond quickly to critical and urgent needs.

4) An endowment provides funds to take on new ventures otherwise not covered through annual operating revenue.

5) The process of building endowment allows you to build stronger relationships with your donors, and sets the stage for ongoing communications.

6) If you are just beginning, you have the opportunity to do it right – creating an accountable, transparent, and energizing endowment.

7) There is an enormous transfer of wealth underway. Researchers at the Boston College Social Welfare Research Institute published a study projecting the intergenerational transfer of wealth expected to occur between 1998 and 2052.[8] That study estimates the transfer will range

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[8] A summary of the study can be found at <www.bc.edu/bc_org/avp/gsas/swri/> in the article entitled "Millionaires and the Millennium: New Estimates of the Forthcoming Wealth Transfer and the Prospects for a Golden Age of Philanthropy."

from a low of $41 trillion to a high of $136 trillion, figures substantially higher than the frequently used $10.4 trillion figure developed in the 1990's by Robert Avery and Michael Rendall of Cornell.

4. Your Challenges

1) Articulating the case for endowment, and integrating that case into your solicitations of donors.

2) Finding the time to prioritize endowment and giving the work the time it requires to thrive.

3) Changing the culture of your organization to build donor relationships and solicit multi-faceted gifts from your donors.

4) Positioning endowment to encourage donors to make annual, capital, and endowed gifts.

F. Ready to Go?

If you are ready to go, here are the five steps to endowment success:

Step One:	Create a case for endowment.
Step Two:	Build an infrastructure for endowment.
Step Three:	Build the team to build endowment.
Step Four:	Market the endowment and begin to talk with donors.
Step Five:	Make a plan to create and build endowment and set goals.

III. Step One: Make the Case for Endowment

A. The Internal Case for Support – Why Your Organization Needs an Endowment

You will need to make the internal case to your board and staff to help them understand the role and impact of endowment and Legacy giving on your organization's capacity to achieve mission. That case must be compelling, urgent, and relate to outcomes as a result of the investment. Without internal buy in, you will find it difficult to impossible to maintain a consistent, effective program.

Do not assume that your board and staff agree that endowment is appropriate. Nonprofits often create endowments by accident rather than by design. An accidental endowment results from a gift – usually a planned gift – left to the organization by a donor for a specific purpose. The donor's objectives may be to create an income stream to replace his annual gift to the organization, to start or endow a scholarship, or to provide start-up funds for a new program. When the charity receives the restricted funds and sets them apart to comply with the donor's directives, an endowment is born.

Planned endowments result from a board action to establish a fund and resolution to build it. It may be funded first through a transfer of surplus operating funds or matured planned gifts. The board's goals may be to ensure future funding for the organization or to encourage donors to make endowed gifts. Endowments may also be intentionally created as part of a capital campaign. Capital campaigns that involve new buildings, a new campus, or even new programs require additional operational dollars for maintenance of facilities and programs. An endowment may be the only way to ensure that additional income is available to meet operating needs. Often, this endowment funding is built into the campaign goals.

The most common objections held by board members include the following:

TABLE 6
THE SIX GREATEST BOARD CONCERNS ABOUT LEGACY GIVING

Common Board Concern/Myth	*The Answers!*
1. How can we justify planning for/soliciting gifts for tomorrow when there are so many unmet needs today? Shouldn't we allocate every dollar we can raise to address today's problems?	Boards have a fiduciary duty to ensure continuity of services. An endowment allows the board to continue services through fluctuations in the economy, to expand programs strategically and with certainty the funding will be there to continue those programs, and to have resources when there are emergencies or disasters.
2. An endowment may make the organization appear rich? How do we get donors to continue giving annually if we have an endowment?	The endowment must have structure and purpose, including long-term goals. Once these are established, donors will understand the purpose and context of their gift, and the role of endowment.
3. How do we get donors to give us unrestricted dollars? We really don't want dollars directed to specific purposes because it will be too restrictive.	Structure the endowment to allow donors to give to broad areas of mission without restricting dollars to specific programs or activities. Long-term this will give their Legacy gifts the greatest impact.
4. Won't donors quit giving to us annually, or in capital campaigns, if they make an endowment gift? How do we avoid this?	Donors will not quit giving annually unless you ask them to do so! Make it clear their annual gifts are critical in supporting current mission, and you do not want them to make an endowment gift it will compromise that annual gift. Keep annual, capital, and endowment giving separate – recognize them separately in your giving societies and annual report.
5. Endowment and legacy giving are complicated concepts. Why don't we just stick to the basics, such as outright cash gifts?	If donors are restricted to cash, their options are limited. By expanding gift asset options, and gift form options, you increase the likelihood the donor will be able to participate.
6. How do we justify the costs for staff, marketing, and support of the Legacy program? You've told us these Legacy gifts will not be realized for many years.	Investing in Legacy and endowment giving is an investment in the future of your organization, as critical a contribution as the dollars that operate your programs today. Because there is a lag time between program start up and the realization of significant cash flow, you cannot wait until you are in crisis to begin.

B. The External Case for Support – Why Donors Should Make an Endowment Gift

The external case for support should communicate to donors why they should consider and create an endowment gift. This statement should motivate the donor, excite and inspire the donor, and clearly communicate that donor's role in the future your organization and the community.

One of the clearest, most compelling cases for endowment was made by Ray Lyman Wilbur, President of Stanford University at the outset of the University's 1922 Campaign: [9]

> *Stanford University is making a new decision which will determine its future for all time. The University has reached the limit made possible by the Stanford Fortune. If it is to go forward and upward it can only do so through the support of every member of the Stanford Family and of the public in general. Stanford now takes its place among the great national universities of this country. . .*
>
> *Independent, self-contained, apparently rich, the University has gone its way to the best of its ability, making limitations in various ways, including the number of students accepted, so that the work done could be on a satisfactory plane. Not to grow is in part to die. The University must have increased facilities, more buildings, and more advantages; must keep step with educational progress, just as a growing boy must have new clothes and new facilities as his capacity to do more increases with age. . .*
>
> *There is every reason to anticipate that we can obtain the same help that has come to similar institutions elsewhere. Stanford is the one great privately endowed university west of St. Louis. Certainly from this vast territory there will come the interest and help that is needed. . .*
>
> *If we can work together for Stanford and Stanford's progress we can rest assured that within another generation no institution in the country will have better facilities, a better reputation, or achieve better results in education.*

This statement has vision. It draws on the university's strategic plan (think of your community's "Next 100 Years" plan.) It challenges and engages those invested in Stanford. It is short and easy to read. It overcomes perceptions the University is rich. It clearly describes the outcome of the donor's investment.

IV. Step Two: Build a Strong Infrastructure for Endowment

A. The Perfect Profile for Success

Not every charity is ready for an endowment. It's difficult to make a case for long-term support of the organization if the charity is struggling to keep its doors open on a day-to-day basis. It must also be prepared to manage and account for the fund entrusted to it.

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[9] *Annual Report of the President of Stanford University For the Academic Year Ending August 31 1922.* (Stanford University, CA; Stanford University Press, 1922) Lane Medical Library. Lane Medical Archives., pp. 19-22.

Indicators of success might include the following:

1. An organization that has been in existence for at least 8-10 years.
2. A history of strong program growth over the period of existence.
3. A solid fundraising program that has grown over the period of existence. Key elements should include a growing annual fund program, a solid base of repeat donors, major gifts and a readiness or entry into planned giving.
4. Stable nonprofit staff, again showing growth commensurate with its program and fundraising growth.
5. A financial officer or other staff member responsible for managing or providing oversight of the endowment.
6. Commitment by the board of directors to build endowment.

B. A Survey of Managers: The Most Common Problems

While many of the endowment problems I see are related to large charities - those with the largest endowments - smaller charities struggle with the same issues, just not on the same scale. These are the most often-cited problems:

1) **Administrative costs that represent too large a percent of the revenue produced by endowment.** Managing an endowment takes time, money, people, and systems to account for the funds (especially segregated funds for specific purposes), allocate revenue to the purpose and document it, investment the monies, allocate gains/losses/fees/additions/distributions to each of the segregated funds in appropriate ratios, report to donors, provide information in audits, report the fund balances appropriately on the financial statement, and in some cases, produce reports on individual funds.

2) **Proliferating and scattered funds.** Many charities allow donors to restrict income, and provide segregated funds at levels as low as $5,000. This leads to a spiraling number of funds, dramatically increases the costs of management, opens the door for missteps in use of funds, and invariably limits the effectiveness with which the charity can report to donors.

3) **Managing the paperwork.** Harvard, at my last count, had 11,600 endowment funds. That's a lot of paperwork. Some charities don't think about how the documents will be housed, how they can be accessed (although with scanning, the answer is easy), and who is responsible for holding them, producing them when needed, and overseeing their safety.

4) **Allocating restricted funds to designated purposes (and proving it!).** Allocating the funds, and documenting that allocating in a way that makes it easy to audit, and easy to produce in the event of a challenge to the use of funds, is harder than it looks, especially when there are so many funds. A $5,000 fund will distribute $200/year with a 4% distribution rate. It will cost more than $200 to separately track the fund, allocate the revenue, document that allocation, and report to the donor. It is easy to drift off course if someone is paying close attention.

5) **Funds that outlive their purpose.** For charities, it is difficult when endowments require that the charity offer and operate programs that are no longer used to achieve mission, or the needs have changed in a way that the fund no longer has value for the charity. The earlier cautionary tales involving Princeton, the Barnes Foundation and Tulane make this point.

6) **Negative investment returns.** Many planning sessions for charities assume endowment values will go up. As we have learned in the last decade (see Table 3) this is not always the case. In fact, the DJIA, in August 2010, is lower than its value at the end of 2000, a decade earlier. Under Uniform Management of Institutional Funds Act (UMIFA), spending was limited when endowments were underwater (under the historic dollar value limitation). In the last 4 years, most (but not all) states have moved to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) which removed the historic dollar value rule and instead allowed nonprofits to exercise discretion (and prudence) in making distribution decisions. Neither help if negative returns continually shrink the non-inflation-adjusted value of the endowment funds.

7) **Litigious donors.** Finally, litigious donors create problems for charities. The lawsuits discussed earlier add one perspective, but a parade of unhappy endowment donors can be just as debilitating.

The charity's goals should be to anticipate these common problems, and create an endowment creation, administration, and spending structure that heads off bad results.

C. The Endowment Structure

1. Form

Once the nonprofit decides that it needs an endowment, it must determine the form of that endowment. The alternatives vary in the degree of protection afforded to the assets, access available to the board, complexity of the endowment form, and costs of administration. There are basically three choices:

a. Segregated account within the charity governed by clear policies and procedures;
b. Stand alone foundation (likely a supporting organization rather than a private foundation); or
c. An endowment account with a local community foundation.

The pros and cons of these forms are set out in Table 7.

TABLE 7
PROS AND CONS OF VARIOUS ENDOWMENT FORMS

Type of Entity	*Pros*	*Cons*
Segregated account within the charity	- Low cost - do not have to create separate entity and file annual return - Flexible	- More vulnerable in times of need - easier for the board to use assets for operating - May be vulnerable if boards change - May be liable for organization liabilities

Type of Entity	Pros	Cons
Stand alone foundation	- More protection from organizational liabilities - More protection from urgent organizational needs - May avoid restrictions on use of funds imposed by state - Allows you to use more volunteers in board slots	- High cost of creating and operating entity - Supporting organizations under scrutiny by Congress - may be changes in the law - Must operate separate entity - takes more time
Community Foundation account	- Community foundation invests assets, does fund accounting, manages acceptance of gifts, has depth in development area - If community foundation is visible and credible, may strengthen the credibility and case for endowment	- The assets must be turned over to the community foundation - the college will no longer own them - The college will no longer have any input (or will have limited input) on investment and spending decisions. - Unless you have language in the governing document, the assets can not be transferred back to the college.

2. Consolidation

Consolidating the endowed assets in a single location is critically important to the long-term success of the endowment. When endowment assets are scattered in a variety of brokerage houses, banks, checking accounts, or certificates of deposit, it is difficult effectively manage costs and maintain consistency in spending and investment management policies. The chief financial officer may also have difficulty in generating a single report detailing fund earnings, funds available for expenditure, and historical information on use of funds and to report to donors. Consolidation allows the nonprofit to focus on performance, purpose, and long-term goals.

3. Designated Gifts

Designated gifts are a necessary part of the overall endowment structure. This does not mean that all planned gifts are endowed, but it does mean that donors enjoy specifying the fund use and charities should expect that many gifts would arrive with restrictions. Allowing designated gifts, however, does not mean that donors can contribute gifts of any size with restrictions.

b. The Issues

The nonprofit should adopt gift policies that provide clear guidance on the most common issues related to designated gifts.

- *Size.* The charity should set a minimum size for an endowment that is accounted for separately. Separate accounting includes annual valuation of the account and tracking annual distributions of income and/or principal. Since the requirements for separate accounting are expensive (whether handled in-house or by a third party), the minimum size should be set at a fairly high level such as $50,000, or preferably $100,000. Smaller accounts can be recognized by name in the annual report, but should be combined with a pool of accounts with a similar purpose.

- *Limited Purpose.* There are many cautionary tales about donors who made gifts for narrow purposes, only to have that purpose change or diminish over time. Most nonprofit gift policies simply state that the nonprofit will not accept any gift that is counter or not in keeping with its long-term mission, or any gift that is too difficult to administer.

- *Accounting Cost.* The final consideration in designated gifts is the cost to account for the gift. Obviously, if the fund holds $100,000 or more, the costs will represent only a small percentage of the fund. If instead the fund is only $5,000, the costs may represent 2%, 3% or more of the fund. The accounting costs may easily exceed the amount of income to be distributed. While this observation is driven by common sense, practical matters are illusive when planning a gift the donor is excited about.

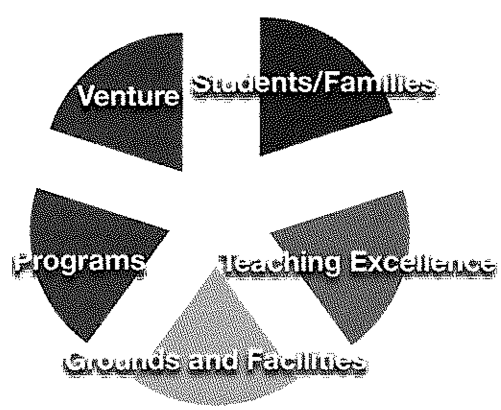
b. The Solutions

How do you encourage your donors to design gifts that fit your guidelines? Incorporate the information in your marketing and discussions, and take proactive steps to make the process comfortable and rewarding to donors.

i. Broad Areas of Endowment Support

Organize the endowment in the four to five sectors that reflect the organization's work. These should be broad sectors that will not change over time. The sectors should be defined enough to allow donors to know how their funds will be used, but flexible enough to allow the nonprofit to spend broadly within that sector. Consider this example for a college preparatory school:

TABLE 8
REPRESENTATIVE ENDOWMENT STRUCTURE



ii. Brainstorm to Develop Goals for Each Sector

Once you have determined the appropriate sectors, group all current funds within the appropriate sector. Then, brainstorm about future needs for each sector, thinking generally about the types of resources the organization will need. Determine how much cash flow you will need for each of those ideas, and total them for the sector. Determine the principal you will need by multiply the cash flow by 25 (this will equate to a 4% revenue stream). Add the sectors together, and you have an endowment goal.

Once these categories are established, smaller accounts can be combined under the appropriate category. This is not as simply as it sounds, of course. Some funds may be restricted, and the charity may need to get the restrictions released. And families should be contacted to seek permission (or inform, as appropriate) for the change.

4. Allow Gift Options at All Levels

a. Create Giving Options at All Levels

One of the biggest mistakes most charities make is to focus on large endowment gifts. This is often done in order to prevent having small funds with restrictions, which clearly creates problems. Open endowment to all donors by creating a pooled fund in each sector that can receive gifts from $1 to the minimum required for a segregated fund. This allows donors with small gifts to allocate their gift to the sector of greatest interest. The pooled funds allow the donor to select an area of interest without requiring the funds be segregated in a fund for that purpose.

b. Limit Restricted Purposes to Funds of $250,000 or More

Set the minimum for more narrowly restricted funds at a minimum of $250,000 (some charities use figures as high as $1 million). Donors below that level can allocate their gifts to one of the five sectors, but if the donor is to restrict the gift more narrowly than the sector, it must be large enough to justify the costs. Large funds will have the name selected by the donor, will produce annual reports for the fund, and will require the funds be allocated and verified.

c. Recognition Opportunities

Allow donors to name gifts at $50,000. For these gifts between $50,000 and $249,999[10], the donor's name will not be tied to a segregated fund, but to the sector to which the gift is directed. For example, if Kathryn and Ben Miree made a $50,000 contribution to the Teaching Excellence sector, the "Kathryn and Ben Miree Teaching Excellence Fund" would be attached to the sector in the annual report in perpetuity (or for a named period), in addition to other $50,000 - $249,999 gifts committed to that sector. A summary of these recommendations is set out in Table 9. (Note - recognition is not generally a part of church life and may not be an incentive to donors to reach to higher levels. If not, I would stand firm on the sizes and simply allocated everything under $250,000 to the sector pool, and gifts over that to endowment.)

[10] If the limit for a segregated fund is $1 million, I would suggest setting the naming opportunity at $100,000 or $200,000.

TABLE 9
GIVING LEVELS AND RECOGNITION STANDARDS FOR ENDOWMENT GIFTS

Level of Giving	*Designation of Use*	*Recognition*
$1 - $49,999	May designate gift to sector to be added to the pool.	Recognized in annual report as a gift to endowment in the year of gift.
$50,000 - $249,999	May designate gift to sector to be added to the pool.	Recognized in annual report as a gift to endowment in the year of gift; name selected by donor (generic to sector) recognized in perpetuity (or for a term) associated with the sector.
$250,000+	May designate the gift sector and a more narrow purpose within the sector; will receive annual statement about use and performance of funds.	Recognized in annual report as a gift to endowment in the year of gift; name selected by donor recognized in perpetuity with the named fund and its purpose.

5. Gift Acceptance Policies

The primary benefit of gift acceptance policies is to maintain discipline in gift acceptance and administration. Discipline prevents the acceptance of gifts that will cost the nonprofit organization time, money, and possibly its reputation, by reminding the organization when to say, "no." Gift acceptance policies are rarely adopted at the inception of a nonprofit organization's fundraising program. Early development activities usually focus on cash, and occasionally marketable securities. There is little discussion of, or involvement with, other gift forms.

Rather, gift acceptance policies are a product of capital campaigns or endowment campaigns in which planned giving concepts, such as gifts made from assets, split interest gifts, and deferred gifts, are introduced. Policies also serve to educate the nonprofit organization's staff and board about critical issues triggered by certain gifts. It is difficult to absorb and appreciate the practical issues associated with acceptance of certain gift forms without working through them and making choices about how to handle them. The process gives the board a chance to make decisions about policy without the distraction of a pending gift to blind its collective judgment. Why is this important?

- *First, decisions based on case-by-case scenarios breed inconsistency.* The results reflect the personal opinions of board members, not consistent policy. Nonprofit boards change annually. While some board members remain from year to year, the full group always changes over a three- to five-year period. Since each of us brings different personal experience and attitudes to the table when making decisions, judgments change as the committee changes.

- *Second, the glittering appeal of the potential gift obfuscates good judgment.* It is difficult to make a list of potential problems and issues while you stare at the gift. The tendency of the planned giving or development officer is to do everything possible to accept the asset.

- *Third, without established policy a nonprofit may send mixed signals to potential donors.* Suppose the planned giving officer receives what can only be described as a wretched gift, and thanks the donor profusely. Later, after sorting through the issues, he finds that the gift must be rejected. The donor is left to wonder why the initial excitement changed to a disapproving "no." A better way to handle gift acceptance is to tell a donor the organization appreciates the gift, but its policies require a review of certain assets to ensure proper handling. A timely review, even with a resulting "no" is easier to understand.

- *Fourth, it is important to note that a good set of policies and checklists will also prevent donors from making mistakes.* Too often a donor's accountant or attorney is not familiar with details such as the related use rules, the valuation requirements, or pre-arranged sale issues. Raising questions in the gift acceptance process may save a donor from disappointment when the time comes to file his or her income tax return.

6. Spending Policies

a. Spending Policy for Endowed Funds

Spending policies are normally set as a percentage of a rolling 12-quarter average or a variation on that theme. The "look back" and average assures the spending policy remains relatively stable, but in difficult times, spending policies may decrease so as not to put too great a burden on the principal. In good times, most spending policies hover in the 5% to 6% range; in difficult economies those spending policies fall to the 4% to 4.5% range. The spending policy for true endowment should comply with the state's UMIFA or UPMIFA standards.

b. Principle Distributions from Quasi-Endowment

It is easy to simply reach into quasi-endowment and spend it down during tough economic times. Adopt policies that make it possible - but difficult to do so. Establish clear parameters in policies - before the economic crisis arises - that clearly establish the circumstances under which quasi-endowment can be spent as operational funds and who must approve that use. Do not keep operating reserves in endowment. Operating reserve funds are generally invested in a more long-term position that operating funds (which, if invested, are in overnight cash) but they are not suited for funds invested with a 8-10 year horizon.

7. Clear Investment Policies

a. Laws Governing Investment Management – UMIFA and UPMIFA[11]

In 2006, The National Conference of Commissioners on Uniform State Laws adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), applicable to charities organized as nonprofit corporations.[12] This Act updated the Uniform Management of Institutional Funds Act (UMIFA) in place since 1972, and comes close to creating one set of investment standards for all charitable funds whether

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[11] See the most recent list of state adoption of UMIFA or UPMIFA and statutory references. These state statutes change quickly, so always check your state's current status.

[12] National Conference of Commissioners on Uniform State Laws, *http://www.law.upenn.edu/bll/ulc/umoifa/2006final_act.htm.*

held in trust or nonprofit corporation form. Table 10 provides the current status of UMIFA and UPMIFA by state. Please be sure to use these as a starting point and check your state's current status. These laws have changed quickly since 2006.

TABLE 10

CURRENT STATUS OF UMIFA AND UPMIFA BY STATE

States That Have Adopted UPMIFA in Whole or in Part			
State	***Code Section***	***State***	***Code Section***
Alabama	§§ 19-3C-1 to 19-3C-10	Montana	§§72-30-101 to 72-30-103, 72-30-207 to 72-30-213
Alaska	§§13.65.010 to 13.65.095		
Arizona	§§10-11801 to 10-11806	Nebraska	§§58-610 to 58-619
Arkansas	§§28-69-801 to 28-69-810	Nevada	§§164.640 to 164.680
California	Probate Code §§18501 to 18510	North Dakota	§§59-21-01 to 59-21-08
Colorado	§§15-1-1101 to 15-1-1110	New Hampshire	§§292-B:1 to 292B:10
Connecticut	§§45a-535 to 45a-535i	New Jersey	§§15:18-25 to 15:18-34
Delaware	12 §4701 to 12 §4710	New Mexico	Art. 9 §§ 46-9A-1 to 46-9A-10
District of Columbia	§§44-1631 to 44-1639	New York	Art. 5-A NPC §§550-558
		North Carolina	§§36E-1 to 36E-11
Georgia	§§44-15-1 to 44-15-8	North Dakota	HB 1074 enacted in 2009
Hawaii	§§517E-1 to 517E-9	Ohio	§§1715.51 to 1715.59
Idaho	§§33-5001 to 33-5010	Oklahoma	§§60-300.12 to 60-300.20
Illinois	760 ILCS 51/1 to 760 ILCS 51/11	Oregon	§§128.305 to 128.336
Indiana	§§30-2-12 to 30-2-18 [39]	Rhode Island	§§18-12.1-1 to 18-12.1-10
Iowa	§§540A.101 to 540A.109	South Carolina	§§34-6-10 to 34-6-100
Kansas	§§58-3611 to 58-3620	South Dakota	§§55-14A-1 to 55-14A-12
Kentucky	§§273.600 to 273.645[40]	Tennessee	§§35-10-201 to 35-10-210
Louisiana	§§9.2337.1 to 9.2337.10	Texas	Property Code §§163.001 to 163.011
Maine	13 §5101 to 13 §5111	Utah	§§51-8-101 to 51-8-604
Maryland	Est. & Tr., §§ 15-401 to 15-410	Vermont	§§14-120-3411 to 14-120-3420

Massachusetts	Chapter 180A	Virginia	§§64.2-1100 to 64.2-1108
Michigan	§§451.921 to 451.931	Washington	§§ 24.55.005 to 24.55.900
Minnesota	§§309.62 to 309.71	West Virginia	§§44-6A-1 to 44-6A-10
Mississippi	§§79-11-701 to 79-11-719	Wisconsin	§§112.11(1) to 112.11(11)
Missouri	§§402.130 to 402.146	Wyoming	§§17-7-301 to 17-7-307
States Without UPMIFA			
Pennsylvania			

The 2006 UPMIFA from the Uniform Commissioners makes three major changes. First, it updates the prudence standards for investments to more closely mirror the Uniform Prudent Investor Act. Second, it removes the concept of historic dollar value from the spending policy and substitutes a set of standards to govern discretionary decisions about spending. Third, it gives charities more flexibility in long-term management of funds by expanding on the release or modification of donor gift restrictions in Section 6.

- **The Change in Prudence Standards.** UPMIFA provides greater guidance to charities in the factors they should consider in investing funds. The Commissioners list the following in their comments to the draft:[13]

    - Preservation of the endowment fund;
    - Donor intent as expressed in a gift instrument;
    - Good faith actions characterized by the care an ordinarily prudent person would exercise;
    - Reasonable costs in investing and fund management;
    - Reasonable effort to determine and verify relevant facts;
    - Decision making about assets in the context of the portfolio as a whole and that portfolio's investment strategy;
    - Diversification, unless special circumstances make diversification inappropriate;
    - Disposing of unsuitable assets; and
    - Using a strategy appropriate for the charity.

- **The Spending Policy.** UMIFA allows a spending policy that distributes both accounting income and appreciation so long as the fund does not drop below its "historic dollar value." However, the Commissioners felt this policy created several problems for charities:

[13] UPMIFA, Prefatory Note, *http://www.law.upenn.edu/bll/ulc/umoifa/2006final_act.htm.*

- ✓ The historic dollar value was fixed at an arbitrary point in time, often based on the donor's death. If it was fixed as the market moved up, the charity had some flexibility; if it was fixed as the market moved down, the charity would be limited in its ability to use the funds.
- ✓ After a period of time—especially when the endowment has far outstripped its historic dollar value—the mark becomes less relevant. Indeed, charities may be tempted to spend well over judicious amounts believing they should spend the balance down to its historic dollar value.
- ✓ Charities with individual funds—and entire endowment funds—that are "underwater" (below the historic dollar value) have struggled to remedy the situation while following the donor's directions. UMIFA provides little guidance on what to do in these situations.

Therefore, UPMIFA changed the spending policy in Section 4 by removing the reference to historic dollar value and substituting the following standards to guide the charities judgment in making distribution decisions:

- The duration and preservation of the endowment fund;
- The purposes of the institution and the endowment fund;
- General economic conditions;
- The possible effect of inflation or deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of the institution; and
- The investment policy of the institution.

- **Changing and Releasing the Use or Purpose of the Fund.** Specifically, the 2006 model UPMIFA allows changes to the use or purpose of a fund under 4 circumstances:

  - ✓ *Donor Release*: "With the donor's consent in a record," the charity can release a restriction in whole or in part, so long as the gift is still used for the organization's charitable purposes.[14]

  - ✓ *Doctrine of Deviation*: If a modification to a gift agreement/document will enhance the furtherance of the donor's purposes, or a restriction is "impracticable or wasteful and impairs the management or investment of the fund," the charity can ask a court to modify the restriction. The Attorney General must be notified and allowed to be heard, and the modification must reflect the donor's "probable intention." [15]

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[14] UMIFA 2005, Section 6(b).

[15] UMIFA 2005, Section 6(c).

✓ *Doctrine of Cy Pres*: If the purpose or restriction becomes "unlawful, impracticable, impossible to achieve, or wasteful," the court may use the cy pres doctrine to modify the fund purposes. The Attorney General must be notified and allowed to be heard.

✓ *Small Funds*: For funds with a value less than $25,000 that have been in place more than 20 years, court action is not required if the charity determines a restriction is "unlawful, impracticable, impossible to achieve, or wasteful" so long as the charity waits 60 days after notice to the state Attorney General of the intention to make the change, and the change is designed to be a good faith reflection of the expressed charitable purposes.[16] Some states have raised the $25,000 small fund amount to as much as $100,000 in enacting the uniform statute.

b. Other Considerations

a) Adopt written investment policies that guide asset allocation, restrictions on risky assets, and clear objectives and statements of risk.

b) Begin the manager selection process by reviewing and clearly articulating goals for the investment of the endowment. This instruction should be given to the investment manager (not determined by the manger) and strongly impacts the recommendations of the manager. For example:

- The goal of the investment process is to protect the assets and to increase the principal value to keep up with inflation.
- The goal of the investment process is to produce maximum annual income for the operation of the nonprofit. The second priority is to increase the underlying value without compromising the principal value of the fund.
- The goal of the investment process is to grow the endowment assets at a rate equal to 5% in excess of the inflation rate.

c) Use a qualified investment manager to invest the funds. Monitor the professional manager (using the policies as your standard) on a regular basis; do not be afraid to ask questions and understand the management philosophy.

d) Do not invest in any asset you do not understand. If you do not understand how the asset is structure or how it performs, you will be unable to monitor its performance.

8. The Endowment Agreement

The endowment agreement sets out the terms of the gift and defines its purposes and limitations. While many gifts come to the charity without an agreement (for example, through a will), those gifts made

[16] UPMIFA 2006, Section 6(e).

during life or even gifts given at death but planned during life can be governed by an endowment agreement. There are two key benefits to the agreement: the charity and the donor can reach agreement on the goals of the gift, and the charity can build in a mechanism for change, if needed.

The gift agreement is increasingly important in the gift negotiation and execution because it provides a platform that allows the donor and the charity to agree on its terms. The goals are to:

i. Ensure the gift's goals and donor's intent are clear.

ii. To provide flexibility in use of the funds over time, specifying what will happen if elements of the gift (its size its purpose, its management) change over time.

iii. Provide a non-judicial roadmap for change, when necessary.

iv. Specify how decisions are to be made on change.

While gift agreements are often used in current gifts where the donor has specific goals they are equally – if not more – important in testamentary gifts. When donors make current gifts, the donors are there to watch over the charity and its use of the funds. With testamentary gifts, the donor is not there to monitor the application of funds, and without a clear directive in a gift agreement, there is a risk – especially long-term – the fund application may vary from the donor's goals.

Consider the following checklist as a guideline in creating an effective gift document:

1. *Fund Name.* The name may include the donor's name, the donor's family name, or a fund purpose.

2. *Amount/asset to be contributed to fund the gift.* (If additional assets are to be contributed, list amounts and timing of anticipated subsequent distributions.) A commitment to made additions may or may not be binding, depending upon how the agreement is structured. However it is difficult to assess the long-term effectiveness of a gift without discussing its ultimate size.

3. *Donor goals.* Make sure the donor's broad goals and objectives are clearly defined in the agreement. In some cases it will be helpful to talk in terms of short-term and long-term goals.

4. *Directives on gift use.* Directives of a gift's use will vary, depending on the type of gift. For example, a scholarship gift might provide parameters for selection and even name a selection committee. Other gifts may simply define that the revenues are to be used for a particular program area.

5. *Recognition, if any, to be provided for the gift.* Specify:

a. *Type of recognition.* Will the donor's name be place on a building, on a chair designation, on a program? If so, does the gift size and type comport with recognition awarded donors who make similar gifts?

b. *Clear communication of minimum* required to receive the gift recognition outlined. Donors may fund a gift in stages. Initial gift may not constitute minimum levels.

c. *Timing of recognition and alternatives if the gift does not reach the anticipated funding level.* Recognition should generally be awarded upon reaching the designated level. Provisions should be for a gift that never reaches anticipated levels – such as a form of recognition at the highest level possible for the gift amount. Many things can happen to families and family assets over time – and the donor may not be in a position to fully fund the gift.

6. *Directives on accounting.* The document should specify whether the gift should have a separate accounting on fund balance, expenses, revenue generated, and revenue application. The charity should have a policy requiring a minimum dollar amount (for example, $250,000 or more) at which a fund will have a separate accounting. Ensure the fund document does not require a level of accounting or process that will be expensive, labor intensive, or otherwise be wasteful. Negotiate an accounting process that protects the interests of all involved.

7. *Directives on reporting.* Accounting (above) refers to an internal alignment and tracking of funds. Reporting refers to an external communication of those results.

a. Type of report required. If the gift document specifies reporting, it should detail the type of report required. The requirement may be the fund balance and application of funds is to be included in the charity's annual report, or simply that living family members receive a copy of the fund accounting.

b. *Who receives the report?* If family members are to receive the report, the gift agreement should designate the individuals to receive the report, both currently and long-term. Short-term, individuals may be designated by name; long-term, individuals should be designated by position, family tier, and/or generation.

c. Length of time to report. Some gift agreements require reporting only during the donor and/or donor's spouse's lifetimes. Other extend several generations.

8. *Publicity.* Public recognition may be important to the donor, just as anonymity may be important. Seek permission for publicizing the gift, featuring a story on the donor and gift, and other anticipated forms of public recognition. Get the donor to approve recognition, direct anonymity, or specify the type of publicity that is permissible.

9. *Directives on Investments.* Investment restrictions can be the most cumbersome form of fund restriction. The charity should include permission for the following:

   a. *Allow pooling with other like assets.* Pooling assets is the most efficient and effective way to manage long-term funds. Managing hundreds of small funds, each with its own investment objectives, is counter-productive.

   b. *Allow investment of assets subject to the charity's then-applicable investment guidelines.* Investment strategies change with current economies, long term needs, and the applicable spending policy. When donors are given a choice, they have a tendency to impose personal investment guidelines and restrictions on charities. The gift document should clearly give the charity this discretion.

   c. *Allow a spending policy in keeping with the charity's then-applicable spending policy for like funds.* The spending policy is generally set each year (or more frequently if circumstances require) and is based on both need, the economy, and investment returns. To invest the funds in a pooled manner, all funds should have the same spending policy.

10. *Flexibility to make non-judicial changes* ("Plan "B" and "Plan C"). Designing flexibility is at the heart of the gift agreement, and is perhaps the most difficult element to design and negotiate. Use creativity. Literally take the use of the gift through a progression of 5, 10, 30, 50 and 100 years to expand thinking about the evolution of the gift.

    EXAMPLE: A donor in the 1940s made a major contribution to a community foundation to provide support for homes for unwed mothers. In the 1940s, there were numerous such homes designed to shelter unwed mothers during pregnancy and avoid the shame of having the community learn of their situation. In the year 2001, there are few such homes since society's attitudes toward unwed mothers are more accommodating. Counseling and help is provided to those in need, but it is largely through agencies that work with the women in their own homes.

    EXAMPLE: A donor made a bequest of $500,000 to the Botanical Society to maintain a specific building constructed by her father. Several years after her death, the Botanical Gardens was renovated; the named building was torn down and a garden installed on the spot. The Botanical Gardens must now go to court to have the restrictions removed and the funds allocated to maintenance of the new buildings.

a. *Think through gift options.* This requires a discussion of the gift goals, gift measurement, and multiple ways those objectives might be achieved. The donor may have only one approach to achieving the gift goals; this discussion should expand that thinking making the case for the need for flexibility.

b. *Alternate program:* Specify purposes related to the gift that might serve as appropriate secondary beneficiaries in the event the original gift purpose is achieved, is no longer appropriate, or becomes impossible to achieve.

c. *Gift over.* Specify another organization to receive funds in the event the originally-named entity does not honor the gift terms. Consider the appropriateness of naming a group (by title, not individuals who may or may not be alive) to make this decision. After all, that secondary beneficiary may also be out of business or may not longer be considered accountable or effective.

d. *Provide for the use of institutional discretion.* The document may specify that the institution can exercise discretion to make changes when the gift has achieved its purpose, is no longer needed for that purpose, is no longer appropriate, is no longer possible, or a variation on those options. Name a group (by title, not name) who has the ability to make the determination that a change is necessary or the specified conditions have been met.

e. *Designate those parties who can make changes, the types of changes that can be made, and how those changes are to be effected.* The document should designate individuals responsible for making changes to the gift purpose. This group may be the same group set out in the paragraph above (who determine it is time to make a change) or it may be a different group. The document should also designate the type of changes that are appropriate without court approval, and what to do if there is conflict among the appointed group. Placing discretion in a group qualified to make those decisions based on the facts and circumstances at the time is a principal used in multi-generational trusts and makes those trusts effective long after the grantor is there to make decisions.

11. *Standing to sue.* While the charity may not want to include a "standing to sue" clause in it standard gift agreement, donor advisors may be interested in such a

clause. Check state law to determine if this is legally possible and appropriate. If reserved, clearly specify who has that standing. Remember that generations change dramatically from one to the next in their perspectives on what is right, wrong, and necessary. Finally, ensure that any reservation is not so strong that it would cause the IRS to determine the donor had not relinquished control. If the reservation is untested, the advisor may want to seek a ruling.

12. *Termination.* The gift document should provide for non-judicial termination of the fund in the event the gift purposes are fully achieved or the gift is reduced to a *de minimis* level.

   a. *Termination upon completion of gift purposes.* It is possible that a gift will achieve its intended purpose. While this is rare, the document should provide how the fund is to be terminated or where remaining funds are to be distributed in this event.

   b. *Termination upon gift's reduction to a de minimis level.* The gift agreement may allow distributions of both revenue and principal, wasting or diminishing the fund to a level so small that it is no longer cost effective to administer, account for, or report. Since de minimis amounts (minimize size for separately-accounted gifts) will change over time, it is best to specify the *de minimis* amount for separately accounted gifts at the time of review. For example, a $50,000 minimum today may be $200,000 or $500,000 in the not very distant future.

It is important for the nonprofit and donor to reach agreement on the objectives of the gift. Donors are often driven to make endowed gifts because of specific visions they have on the use of the funds. Some donors are able to express these goals in a very articulate fashion, while others are vague. There's a benefit to the charity entering the discussion with the donor. It's a great opportunity to know more about the donor's goals and objectives, and to reshape those goals if they are too narrow or will be too difficult to accomplish.

9. Solving Problems with Current Documents

a. Typical Problems

Sometimes documents have provisions that create significant administrative problems and a change must take place to reduce costs or increase the effectiveness of the funds. Consider the most common problems and solution options.

- *Investment Restrictions.* Sometimes - especially in older documents with conservative donors - investments are restricted to specific assets, the document requires a formula distribution such as "80 percent of the earnings shall be distributed and 20% of the earnings shall be reinvested to provide growth for the underlying funds." Any type of investment restriction limits the charity's ability to pool the funds for long-term investment purposes and automatically requires that the fund be segregated and invested separately.

- *Distribution Restrictions.* In other cases, there are distribution restrictions. The restriction usually relates to how the funds are used, but may also direct a specific annual distribution (such as 5%). Restrictions may state the funds are to be used solely for a specific program which no longer exists or is fully funded or the funds may be restricted for a broader purpose which is no longer a nonprofit priority.

- *Small Funds.* One of the most vexing problems may be small funds. The definition of "small funds" may vary from institution to institution, but are generally funds of $100,000 or less. (Some may define as $25,000 or less.) These funds may not be a problem in the early years of endowment when every dollar is welcome, and segregated funds are offered at low levels. It does become a problem as the number of funds increases to several hundred and then several thousand requiring more and more time to account and report.

b. Options in Solving Problems

Once charities begin to struggle with endowment restrictions and the number of funds, options may be limited. Here are the current alternatives. Review your documents now so that if there are problems that may create difficulty down the road, you have the greatest number of options.

- *Document Solutions.* An obvious solution would be to include a provision for dissolution of small funds in the governing document. The provision can direct that when the fund gets to a certain dollar value the charity can expend the balance for the fund's purpose, can pool the funds with the charity's unrestricted endowment, or can combine the fund with any of the charity's larger segregated funds that comes as close as possible to the fund's purpose.

- *Living Donors.* UMIFA and UPMIFA allow living donors to make modifications. This is the second simplest, non-judicial way to make a change to the document.

- *Statutory Solutions.* If the donor is not living, and the fund has existed for a long enough period to qualify for one of the other solutions under UPMIFA, the charity may find this a viable option. Read your state statute to determine under which circumstances changes can be made. The state attorney general must receive notice and have time to respond to the proposed changed, but it may offer a solution.

- *Judicial Solutions.* The final option - and the only one available for many funds - is to take the documents to a court of equity and ask the court to intervene to solve the problems. This is the only solution for some problems, such as larger funds with investment restrictions. Some charities, after review of all endowment documents, have taken in groups of documents in a single hearing, all with the same issue. Other funds - especially if they are large - are taken in singly to seek resolution. The state's Attorney General is a party to these proceeding representing the public's charitable interest.

The simplest way to provide flexibility in ongoing use of funds and yet preserve the donor's original intent, is to anticipate change in the governing document. The governing document may be an endowment agreement executed on delivery of the gift, language in a will or trust creating the gift, or simply a verbal acknowledgement recognized in writing on receipt of the gift.

10. Accounting and Accountability

Charities that accept endowed funds must be able to account to donors, donors' families, and the public for the management and use of the funds committed to endowment. In addition, the charity must ensure that distributions are made in accordance with the terms laid down by the donor or the board. Some fund agreements may restrict distributions to accounting income, others may allow a total return/ spending policy approach, and some may permit principal distributions for specific purposes. The use of the funds must also be tracked and document. When the distributions are restricted to specific purposes, the nonprofit has an obligation to follow through. Too often this accounting trail is murky, as endowment earnings are distributed to one account for distribution or are simply allocated to the annual budget.

11. Reporting to Stakeholders

Endowment reporting offers a great opportunity for stewardship. Donors who create funds during life often want information on how the fund is growing, and the lives or programs touched by the distributions. This is most easily accomplished with a fund statement that shows the donor's gift balance accompanied by a letter detailing the distributions made from the fund and the uses to which those funds were put. If the donor is no longer alive, this information can be sent to the donor's descendants, with a personal note about the donor's goals and objectives in creating the fund. Whether the report goes to the donor or the donor's family, it will remind them of the importance of the gift and may encourage them to make additional contributions. One annual report combines stewardship and fundraising.

a. Getting the Work Done

Tracking individual funds, allocating increases and decreases to reflect capital gains and losses, apportioning income and fees, and posting additions and distributions is not an easy task. The options for the charity are to staff the work in house or to hire an outside management firm.

b. Internal Management

Many charities handle accounting internally through Excel spreadsheets or other software. This accounting is easily handled in house when the endowment has a limited number of designated funds. It becomes more problematic when the number of accounts increases. The difficulties are ensuring accuracy and providing donor reporting.

In addition to the rigors of fund allocation, the annual accounting to donors is more difficult. Most internally produced balance sheets are not suitable for mailing. Therefore figures must be produced and integrated with the letter reporting results to the donor.

c. Third Party Management Firm

A number of third party vendors are equipped to do the accounting for endowment sub-accounts. Most banks and trust companies have divisions geared to nonprofit management, and there are specialty administrative firms with this capability. When hiring a firm to do this specialized accounting, know your goals (accounting, donor statement reporting, etc.) and know the number of levels of accounting you will require. Some firms cannot manage more than one or two sub-account levels, while others are more flexible.

V. Step Three: Build the Team

A. An Overview

A successful endowment campaign and planned gift program involves a team effort. While staff may have the lead role, staff cannot be effective without support. It's important to be as specific as possible about board, staff, and even professional advisor roles.

Expanding a development program to accept planned gifts takes more staff and volunteer support than conducting an annual fund campaign for several reasons.

- *Planned gifts involve non-cash assets, some of which carry liability for the Charity.* For example, a gift of undeveloped real estate may have environmental damage; if the charity does not engage in due diligence in reviewing the gift prior to acceptance, it may find itself liable for cleanup, even though it had nothing to do with creating the damage. Or, a gift of closely-held stock may be accepted to fund a needed scholarship program – only to discover there is no market for sale of the stock. This does not mean that non-cash assets are inappropriate. It simply means the charity has to have policies and procedures in place, a chief financial officer familiar with these issues, and a staff and board that understands it is sometimes appropriate to say "no."

- *Planned gifts are generally allocated to endowment, requiring additional time and expertise for management.* Endowments require time and attention. The assets invested for endowed purposes require a more long-term asset allocation, policies for withdrawals, a spending policy, special accounting (for funds set aside for specific purposes), and the ability to report to donors. Often, the charity's financial officer is not aware of the need to communicate with staff and donors about results; therefore, the financial officer should be brought in early and become part of the planning team. In addition, the CEO must support the effort.

- *Planned gifts require patience.* While an annual campaign is planned, executed, and completed within a year, or a capital campaign is planned, executed and completed within five to ten years, a planned giving campaign has no end. The most effective programs continue year to year as a constant background effort. Donors who commit to a planned gift today may not complete that gift for 5, 10 or even 25 years. Eighty percent of all planned gifts are deferred until death – and donors making commitments are sometimes as young as 40. This requires staff and board to understand that their work today is ensuring the future of the Charity.

- *Planned gifts are most likely from the charity's best donors.* Often, these donors have the closest relationship with the annual gift staff, the charity's staff or program officers, the board, or even executive staff. Each of these individuals is a planned giving ambassador and should know how to connect that committed donor with the planned giving officer to move the gift forward. Without that support, the planned giving officer will have little way to make contact.

The most effective planned giving programs have the support of the charity's staff leadership, its volunteer leadership, and the other members of the development team. It is easiest to understand the role that each can play by examining specific responsibilities.

B. The Role of the Board

Board members can make a big difference in the success of a planned giving program. Board members are the representatives of the charity in the community and can communicate case, purpose, and endowment impact. Volunteers can open doors to potential prospects and communicate peer-to-peer with the board and potential donors about the impact of planned gifts. Specific duties, focused primarily on the board, are enumerated below:

1) *Engage in a regular strategic planning process.* The role of endowment in the charity's future should be a part of that discussion. The board has a fiduciary duty to ensure the charity has the ability to meet short-term dips in operating income, and to fund the growth and expansion of the charity.

2) *Participate in the design of endowment.* Set a goal for the size needed to sustain the charity (specifically by area of need). Make sure endowed funds are protected through policies on use and withdrawal of funds. Set a minimum size for separately accounted funds. (Note: often this work is conducted in the development and/or finance committee.)

3) *Ask questions!* The Board's role is to ensure the safety of the long-term assets committed to its care. Board members and volunteers should know how the funds are invested and the fund's return (compared to indices).

4) *Ensure accountability.* Make sure the charity has the resources to perform its duties related to endowment and planned gifts.

5) *Include a regular report on planned giving and the endowment with each board meeting (through a committee report).* Boards tend to prioritize those activities that are regularly reported. To give the report extra emphasis, ask the volunteer chairing the responsible committee to deliver the report.

6) *Ensure planned giving and endowment management are included in the charity's budget, and that the program is managed within that budget.* This may include

staffing, marketing, event funds, or other dollars. It is not necessary to have a devoted staff member or a large budget to be successful.

7) *Provide marketing and outreach support for staff.* This includes identifying donors, calling on donors, sponsoring events, or any appropriate way to lend support for the process.

8) *Adopt policies.* These include:

- Gift acceptance policies
- Investment management policies
- Endowment policies
- Stewardship policies

9) *Adopt ethical guidelines affecting donors, staff and volunteers.* The Board sets the ethical tone for the charity.

10) *Consider a personal gift to the charity.* A board member or volunteer has high contact with an organization, understands its mission and effectiveness, and should at a minimum consider a gift. Planned gifts can be made at every asset and income level. If the board member has not considered how he or she might make a gift, it is difficult to call on other donors to ask them to give, or to truly understand the value of planning in making a gift.

C. The Role of Staff

1. The Duties of the CEO/Executive Director

The CEO must actively support the endowment process if it is to be a success. The CEO sets the agenda for the charity, prioritizes staff responsibilities, prioritizes budget dollars, determines the content and pace of the board meetings (with the Board chair), and works with the development officer to set goals and objectives for the year. If the CEO is ambivalent about planned giving, or believes it is not as important as other development activities, the program will suffer. Specific duties are enumerated below.

a) *Drive strategic planning process that establishes long-term goals of the charity, the role of planned gifts, and endowment needs* (including ultimate goal for endowment).

b) *Draft or oversee drafting of case statement for endowment* (work with development staff).

c) *Ensure board understands and endorses long-term strategic objectives and the role of planned giving and the resulting endowment.*

d) *Make regular reports to board on planned giving results; schedule as regular report to the board.*

e) *Assign oversight of endowment to finance committee.*

f) *Make regular reports to board* (through investment committee) on endowment size, performance, and contribution to operating needs of affiliate.

g) *Define endowment form* (separate account; separate entity such as foundation) and fund structure (minimum size, purposes of funds).

h) *Draft resolution to commit planned gifts to endowment*; present to board for approval.

i) *Assure CFO can manage administration and reporting required for sub-accounts in endowment*; use third party administrators if services not possible internally. (Third party services are usually the most professional and best long-term solution.)

j) *Establish mechanism to request funds* (quasi-endowment or non-donor restricted) from endowment.

k) *Support development staff* in making calls on potential donors and/or recruiting volunteer leadership.

2. The Duties of the CFO

The CFO is the individual charged with oversight of the planned gifts once received. This individual must understand the role of planned gifts, the distinction between planned and annual gifts, and the importance of communicating with the staff and donor about fund management. Specific CFO duties are set out below.

a) *Work with development/national staff to develop endowment agreement* used to govern designated endowment gifts.

b) *Review administrative requirements for planned giving and endowment* management, and determine resources necessary to support the process.

c) *Make checklist for development staff for all items needed to take in gifts of cash, securities, and other assets.*

d) *Make annual checklist for planned giving and endowment support* (see related annual checklist in this section) to guide annual activities.

e) *Work with investment committee to invest assets.* Recommend spending policy for endowed assets.

f) *Prepare quarterly and annual report on endowment results*, use of funds, etc. for investment committee, board, and annual report.

g) *Follow through on receipt of all gifts to set up account on books, sell or otherwise dispose of asset, acknowledge gift to donor* (substantiation and Form 8283 for non-marketable gifts in excess of $5,000 sold or disposed of within three years of receipt).

3. The Duties of the Development Officer

Few charities have staff devoted solely to planned giving (roughly 20% do). This means the development officer may be responsible for all aspects of fundraising, or major/planned gifts, or some combination of duties. Checklists keep things in perspective and are useful in making an annual implementation plan. Specific duties are listed below.

a) *Prepare a planned giving audit of the charity's readiness for planned giving.* (You may need outside help for this, but it is a critical first step, and helpful to conduct periodically to measure your progress.)

b) *Work with staff and volunteer committee to develop the case for planned giving and* endowment.

c) *Identify budget needs* (marketing, staffing, travel, donor meetings, etc.) required to solicit endowed gifts.

d) *Prepare marketing materials that explain endowment and planned giving to donors.* This may include a brochure for the endowment initiative, a basic planning workbook, and a comprehensive brochure for the charity. These should be revised periodically to make them current.

e) *Determine volunteer support required to solicit gifts for endowment*; recruit volunteers with support of CEO. This is time well spent, since every volunteer is a potential donor (even those that have already made gifts to the charity).

f) *Make calls on donors to solicit planned gifts*; prepare gift proposals; follow through with advisors and donors to complete gift.

g) *Follow through with CFO after receipt of gift to make sure your charity has all information required to manage the gift after receipt*; make sure follow through on sale or disposition of assets. For example, if you have just created a charitable gift annuity, have you asked the donor how they want to receive the payment? Do they prefer automatic funds transfer to a checking account, or would they like to receive a check in the mail?

h) *Contact donor after fund established to let donor know what to expect* in terms of substantiation, communication, and reporting.

i) *Send annual update and thank you note to donors whose funds comprise the endowment*, helping them understand the impact their gift has had on the operations of the charity.

D. The Role of Volunteers (Committee Members)

The volunteers who staff the endowment task force, and make the calls on prospects, are the keys to its success. Peer to peer solicitations are far more effective than staff calls on prospects. These volunteers should:

- Embrace the learning curve! Learn as much as possible about endowment, and the impact it will have on the organization's future.
- Learn to articulate the case.
- Consider a personal gift to the endowment. Your gift will lead by example and inspire and encourage others to consider a personal gift.
- Gift thought to the impact of your gift – on your community, on your family, on you personally. By thinking through the process it will open your eyes to the process others must engage in to complete a gift.
- Make the calls! Your calls will change the face of your organization!
- Get help when you need it – you are surrounded by resources to make the job easier.

VI. Step Four: Positioning the Endowment/Marketing to Donors

Once the endowment is organized, well managed and effectively invested, consider it a powerful marketing tool. For years charities have shied away from mentioning or advertising endowment for fear of sending the message to donors that it had plenty of assets and does not need additional contributions. Marketed in the right way, however, it becomes a showcase for solid management techniques, and a beacon for donors who are considering planned gifts. The case statement for endowment should always accompany the message, so that donors understand the purpose of the fund, its role in the ongoing viability of the nonprofit, and the outstanding endowment needs.

A. What is the Opportunity for Your Donors?

Once again, we're back to the case for support. The first step in marketing is understanding the joy donors experience in giving – it is a privilege to envision and imagine the impact of their gifts on the organization, the community, and those served by the organization.

The conversation you will have with donors will create opportunity for that donor – not a burden. Here are the elements of that opportunity:

- The donor can select the charity to which the endowment gift is made, and the purpose for which that gift is used.

- The donor can create a gift that involves family, or honors a family member.

- The donor can create the gift within the context of his or her estate planning. This opportunity alone may result in a more thorough and thoughtful review of that estate plan.

- The donor can give back to the community that has provided such support to the donor and the donor's family.

- It's an opportunity to change the world, and change the lives of those served by your organization.

B. What Are the Challenges to Donors?

Just as board members have preconceived notions about the appropriateness of endowments, donors may have preconceived notions of the appropriateness of the endowment and their role in making an endowment gift. Consider the most common issues and be prepared to help donors move beyond these reactions.

- It is uncomfortable to talk about bequests and death, or, there is no need to talk about that now – I'll take care of that later.

- How do I take care of my personal needs, my family, and the charities I support? I don't know where to start.

- Why don't you just raise the amount of money you need every year? It doesn't make sense to have a big pile of unused funds sitting in endowment.

- I'm not wealthy enough to give you a large gift – what I could afford to give you really wouldn't make a difference.

- This whole process sounds too complicated. Why don't I just write you a check for $500? That will save us both time and trouble.

- Why do you need so much money?

- My family doesn't live in this community. I don't think I really need to create a gift like this in Dallas.

C. The Many Facets of Donor Motivation

Each donor has his or her own motivation to create an endowment gift and you should not assume you know that motivation. It is generally revealed in the course of gift planning. In that, one of the real values in the gift planning and the endowment development process is that it provides so many timing and structure options, and allows donors to combine personal and philanthropic goals. The most common motivations to establish an endowment include:

1) Faith
2) A commitment to the vital role and permanence of the charity
3) A commitment to "give back"
4) An appreciation of the charity because of its integral role in their lives
5) An interest in facilitating change in the community through the nonprofit organization
6) An interest in establishing a memorial for the family or an individual
7) A desire to influence or control the nonprofit's activities
8) Guilt
9) Tax incentives

D. Setting Expectations

Keep the endowment - and its impact - visible year round. It's all about expectations and communication. Position the endowment as an essential element of your organization's success. Ask donors to support endowment, to include gifts to endowment under their wills, and to extend the impact they have on annual operations through a gift to endowment. Make it clear that donors at all levels can participate, and that you will not be successful long-term without that support.

E. Communication

Communication should not only focus on the donor and the donor's family, it should focus on endowment prospects and the general public as well.

‣ *Board reports.* Keep the board informed throughout the year. Provide a report on the endowment, the number of current funds, the number of new funds, the investment performance, the first managing the funds, and the impact of endowment on the organization's mission.

‣ *Annual report.* Report on the endowment, the number of funds, those with permanent funds, investment performance, the impact of the fund, and the annual impact. Be sure to include information on how donors can create a personal impact.

‣ *Website.* Include information on endowment on the website. This should include the information in the annual report as well as instructions on how to name the endowment under a will, trust, or as beneficiary of a life insurance or retirement/IRA plan, how to get a sample fund document, and who to contact to have a deeper conversation.

‣ *Development materials.* Create an annual endowment report that can be used to talk with donors about endowment. Include information in basic giving brochures and planned giving brochures. Position the endowment and its purpose and encourage donors to give at all levels.

▸*Newsletters, magazines, and other platforms.* Everyone who receives a newsletter, magazine or other communication from your nonprofit is a prospect. Include stories of donors who have created funds (living and deceased) at all gift levels and the impact of their gift. Refer readers to the website for more information.

F. Stay In Touch with Donors and Their Families

Most problems between nonprofits and donors (or donors' family members) could have been alleviated, mediated, or reduced in scale through discussions and an effort to resolve the issue at the front end. Once a donor or donor's family has been stonewalled, ignored, or cut off, it is no longer possible for a possible settlement. Be clear at the creation of the fund to establish open communication. Document the files to clearly communicate to the next staff member any conversations or expectations of the donor the nonprofit agreed to. (These should all be reduced to writing in the document at the beginning, but sometimes resolution of small issues occurs along the way.) Provide transparent, annual communications. Engage the donor's family after the death of the donor.

VII. Step Five: Make a Plan and Set Goals for Endowment

A. Setting Expectations on Goals

Planned giving programs do not operate like annual fundraising or capital campaigns. Donors are asked to consider a gift to endowment through their estate plan. These prospects consider a variety of gift options that will meet their personal financial and charitable goals, as well as the charity's needs. Decisions are made slowly and often deferred until the donor is ready to tackle decisions in his entire estate plan.

Nonprofit boards make two common mistakes when setting goals for endowment and planned giving programs.

- *First, they expect an endowment – funded by planned gifts – to address short-term fundraising goals.* This will not happen. Planned giving takes time. There are no "average" benchmarks for planned giving program success. This is largely due to the fact that each charity has a different market position, board, history, and budget. One rule of thumb, however, is that the substantive results of a planned giving program will not be evident for 7 to 10 years.

  Why the delay? Most planned gifts are deferred to the date of the donor's death. And while many donors who make planned gift commitments are over the age of 65, the mortality tables provide increasingly generous expectancies for donors of that age.

  The long-term nature of the commitment is the strength of a planned giving program. One of the most successful sources of planned gifts is a donor with previous planned gift experience, whether that experience is with your organization or another nonprofit. A donor who has made a long-term commitment to your nonprofit will often increase the level of annual gifts in addition to making other planned gifts. That is because donors who make a bequest or other deferred commitment are invested in your organization's present and future.

- *Second, boards expect a planned giving program to generate instant returns. This also will not happen.* This expectation is a corollary to the first. Nonprofits are accustomed to immediate returns on their investments in fundraising, and naturally measure planned gifts in the same way. Annual campaigns, special events, and even capital campaigns have specific dollar goals and a date for campaign completion. Donors are solicited to write checks or make donations immediately. For these activities, current dollars are the measure of success.

  Planned giving programs are different. Donors are not asked to make immediate contributions, but to consider the charity in their estate planning. (In fact, asking donors to fund the endowment with current dollars may affect that individual's ability to continue to make annual or capital gifts.) Decisions are made more slowly, and in the context of their broader estate plans.

  As noted above, this does not mean that solicitation of endowed and planned gifts will not positively impact current gifts – it should. Conversations with donors about endowment build stronger donor relationships, focus donors on the organization's long-term goals, and remind them of the importance of their current investment in the organization's mission.

B. Begin by Setting Conceptual Goals

Begin the goal setting process by working with the board to set conceptual goals for the endowment and planned giving programs. This offers an excellent opportunity to begin the board's education on this process and to set expectations about outcomes. Conceptual goals may include:

- Building the financial base of the nonprofit by creating an endowment;
- Identifying new donors to the organization, and cultivating those who are currently connected;
- Creating a marketing program to bring greater community visibility of the charity and its mission;
- Creating greater visibility for endowment and planned giving within the charity (staff and board);
- Improving the charity's organizational infrastructure and the effectiveness of its development program; and
- Creating a structure to involve a greater number of board members and volunteers in fundraising.

Discuss the goals, rank them by priority, and reduce them to writing.

C. Next, Set Specific, Incremental Goals

Next set smaller, more specific goals that allow your organization to achieve the broader goals you have established making sure the goals you set are attainable, and are realistic. For example:

YEAR ONE GOALS

- Strengthen data management to expand information retained on donors, and to hold planned gift/endowment data.
- Develop a prospecting and donor identification process.
- Adopt gift acceptance and endowment management policies.
- Create a marketing plan that will educate donors about endowment, planned gift options, and the case for long-term funding. Integrate these messages in current publications.
- Update annual fund and annual report formats to include queries on planned gifts and offer donors information about endowment.
- Develop method of tracking personal calls and responses to endowment marketing.
- Create a planned giving recognition society.
- Make calls on the 50 top prospects.
- Obtain endowment gifts from 50% of the board members.
- Obtain endowment gifts from 20% of the former board members.
- Train board and staff on endowment/planned giving.

YEAR TWO GOALS

- Raise board endowment participation to 75%.
- Obtain 10 additional endowment commitments from former board members.
- Make calls on 75 top prospects to solicit endowment gifts.
- Celebrate your success at the one-year mark, inviting all who have committed to date and top prospects.
- Send letters to top 500 endowment prospects to invite them to an event, or to request information; follow up by telephone with as many as possible.
- Create a professional advisor council to support activities and raise awareness in the professional community.
- Add a full or part-time staff member to support endowment/planned giving work.

YEAR FIVE GOALS

- 150 total members of the planned gift recognition society
- $2,000,000 in endowment assets and $10 million in endowment commitments
- 150 ongoing solicitations per year
- Active endowment committee/task force
- Active professional advisory council with two regular meetings each year

The goals set for the endowment/planned giving program should emphasize the priorities of the program. The goals must be measurable and should be divided into indirect revenue producing activities

(activities with the goal of identifying and cultivating prospects) and direct revenue producing activities (activities related to closing gifts).

INDIRECT REVENUE PRODUCING ACTIVITIES

In the early years of a planned giving program you should expect to spend most of your time in building infrastructure, qualifying prospects, making calls, and having conversations with potential donors. Planned giving success has a high correlation to the level of personal contact and interaction that the charity has with the donor. The higher the level of contact, the more likely it is the organization will be successful in developing endowed and planned gifts.

- Identifying qualified planned giving candidates.
- Reviewing donor records to qualify candidates as prospects.
- Training volunteers to make calls.
- Making telephone contacts to request appointments to discuss an endowment gift.
- Making personal visits with donors to solicit planned gifts.
- Making telephone calls and/or visits to follow up on solicitations.
- Making contacts with or soliciting the nonprofit's volunteers.
- Conducting seminars
- Mailing brochures to qualified prospects
- Making follow up calls in response to brochure response cards

DIRECT REVENUE PRODUCING ACTIVITIES

Completed gifts – both irrevocable and revocable – should begin to materialize in the first few years of the planned giving program. However cash flow may not materialize for five, seven, or even ten years.

D. Create a Written Plan

1. Start with Your Goals

Use the goals to set your action steps. Break the goals into individual steps required to achieve each one. Please these action steps on a worksheet in a format shown in Table 11.

TABLE 11
IMPLEMENTATION PLAN WORKSHEET

Action Steps	*Person Responsible*	*Staff/Volunteer Resources Required*	*$$ Resources Required*	*Timeline*
1.				
2.				
3.				

4.				
5.				

2. Incorporate the Results of the Assessment of Infrastructure and Readiness

Using the list you created when you made an assessment of the elements required for success, such as a committed board, gift acceptance policies, endowment policies, staff, basic marketing materials, professional resources, and data management capability. Identify those tasks that must be a part of your implementation plan and include them on the list. Many of the infrastructure items must be included in the first year.

3. Don't Forget Other Key Details on Your Implementation Plan

An implementation plan is transformed from a "to do" list to a true implementation plan when key details are added. These include:

- The person or persons responsible for driving the action item.
- The staff and volunteer resources required to complete the step. Addressing this in the planning process adds a dose of reality to how quickly the step can be accomplished, and also establishes the critical roles of staff and volunteers in the success of the plan.
- The planning stage is also the time to address budget by including the financial resources required. The pace of implementation will be tempered not only by the staff/volunteers required, but the dollars required as well.
- Finally, assign a timeline. Be aware that some activities must be completed before the next stage begins. Make sure your timelines are realistic. Also note you may undertake more than one activity at a time.

E. Commit to Ongoing Reporting

1. Update Progress on the Plan on a Quarterly Basis

Update progress on a quarterly basis, using one color to denote completed items and another to indicate a step is in progress. Share this with the volunteer team and the board. If a single action item is holding up progress in moving forward, problem solve to eliminate the barrier.

2. Track Progress Internally with a One Page Report

While the endowment team will use the color coded implementation plan to track work progress, you will also need to track outcomes. Use a simple, single, one page report to track progress and report to the board. (See sample at Appendix B.) This report focuses you on the number of calls made, gift commitments received, and dollars received. It further measures the number of members of the planned gift recognition society, recognizes new members, and educates the board with a single tip on gift planning.

3. Report Progress Externally by Thanking Donors and Reporting Impact

As recommended earlier, account to endowment donors, or donors' families, on an annual basis. Send them a letter and reporting reflecting the impact of their endowed gift. Emphasize your appreciation for the gift and the effective management the organization has provided. Encourage additional contributions to the fund, or creation of a new fund for an area of personal interest.

Always address investment results in the report. Donors become especially curious about investment results in down years. Even in down years there can be good news if the nonprofit results have met or exceeded market results. Even if the investment results are not reported in the public documents, donors who have contributed funds to the endowment should be told and staff should be prepared to answer donors' questions with an emphasis on the strong points of the portfolio's performance. If the performance has been disastrous, then staff should be prepared to tell donors what the charity plans to do to position itself more positively moving forward.

Endowment performance reporting provides the most tangible way to provide stewardship to endowment donors. Consider these donors similar to other types of donors with the potential to make additions to gifts or to create new funds. Annual reporting also provides a way to involve family members, either before or after the donor's death. Keeping in touch with family members through annual reporting allows the planned giving officer to develop a relationship with family members and to cultivate them as potential new donors.

Also thank those donors that have made gift commitments. Describe the impact of endowment on current mission and talk them as "partners" in your current and future success.

VIII. Tools to Use In Building Endowment

A. A Perspective on the Planning Process

Most individuals – and their advisors – come to the planning process with assumptions that get in way of creating significant estate gifts for charity.

1. Common Barriers to Charitable Planning

The most common assumptions are:

- **Assumption One: The individual wants to leave his or her entire estate to family**. The planner should not assume that the client wants to leave the entire estate to a spouse, children, or other relatives. The client should be asked to quantify his goals for family members. More and more individuals – those with excessive wealth and those with more moderate estates – have specific dollar goals in mind.
- **Assumption Two: The individual is driven by tax avoidance.** So much of what the client reads in *Forbes, The Wall Street Journal*, or even the local newspaper on estate planning focuses

on tax avoidance or reduction. The planning professional also focuses on estate planning techniques and tax avoidance. The donor is focused on neither. Instead, he is concerned about personal needs, family needs and in many cases, charitable goals; he is not willing to sacrifice those goals merely to save taxes.

- **Assumption Three: The individual has fully thought through the issues that impact estate planning.** Most have not. It is important to understand the perspective of the client involved in charitable planning. While the professionals involved consider the tax consequences and alternatives, the donor is dealing with more personal issues. The donor must first ensure that he or she will be able to maintain or improve a lifestyle. Next, the donor must ensure that he or she can provide for family, both during life and at death. Finally, the donor may want to impact or benefit those charitable organizations that were priorities during life. If the donor has not taken the time to articulate or quantify these concerns and goals, it is difficult to make decisions in the planning process.

2. A Checklist for Goal Setting

Many clients have difficulty establishing goals for planning. These individuals may not have taken the time to person goals for lifetime needs or for the disposition of wealth. They often need help in working through the process. The worksheet at Appendix F is an example of a simple form used to elicit this information. Common planning goals may include:

- *Providing for sufficient assets for spouse and family and addressing special needs.*

- *Providing for children.* This requires a discussion of the amount or nature of the property to be left to the child, and the form of the gift. The client should review whether the child is capable of financial asset management or if an advisor or trustee should be appointed.

- *Providing for grandchildren.* This also requires a discussion of how much and in what fashion. Can they handle financial asset management? Would a professional trustee be of benefit?

- *Providing for special educational, rehabilitation, medical or remedial provisions that should be made for one or more dependents.*

- *Providing for the care of extended family members.* Do you have any special concerns or needs that should be addressed in providing for your parents? Are there any other extended family members (or siblings?) that require special help?

- *Creating a way to maintain control or allow for flexibility.* How important is the ability to provide direction and meet needs?

- *Establishing family values and philanthropic goals that are important.*

- *Support specific charities that the client has supported during his or her lifetime.*

3. The Age Perspective

Income needs drive many of the decisions on charitable gift planning. While there are always exceptions, the chart below reflects patterns of interest. Table 12 provides a perspective of the changes that occur as donors move through age and economic cycles in their lives.

TABLE 12
LIFECYCLE CHANGES IN DONORS' LIVES

Age	*Goals*
25-40	Generate enough income to survive!
40-55	Build assets - gather and invest - long-term investment horizon
55-60	Position for retirement - short-term investment horizon
65-on	Live on income - preserve principal - short-term, conservative investment horizon

B. The Planning Tools: Outright Gifts

Almost any type of property owned by the donor may be the subject of an outright gift. These gifts may consist of a transfer of a 100 percent interest in the property, or in some cases, a partial interest in the property.

1. Publicly Traded Securities

Gifts of appreciated securities – stocks, bonds, and mutual funds – are one of the most common forms of planned gifts. There are two reasons. First, a large part of the population now owns securities and most of these securities appreciated significantly throughout the 1990s. Second, gifts of appreciated property generate two tax benefits: a charitable deduction for its market value and avoidance of tax on the appreciation.

Mutual funds are also a popular gift option. A mutual fund is an open-end investment company; a share of a mutual fund represents a fractional ownership in an underlying group or "basket" of securities. Mutual funds have become extremely popular throughout the 1980s and 1990s, as investors have had access to thousands of funds through brokerage firms, direct mutual fund access, and employee benefit plans. Mutual fund shares trade only once a day, at the end of the day. Gifts of mutual fund shares are valued at the public redemption value (the net asset value of the fund) on the date of gift. Net asset value is determined by valuing all securities in the fund at the end of the day, reducing that value by expenses and dividing that figure by the number of shares outstanding.[17] This price is published in the

[17] Reg. § 20.2031-8(b)(1).

Wall Street Journal, on various websites, and other written or electronic journals that track the securities market.[18]

2. Privately Traded Securities

Privately traded securities, also referred to as closely held securities, are defined here as securities for which there is no public market on a stock exchange, over-the-counter market or otherwise.[19] Shares of closely held securities are popular gifts, because many individuals create and operate small businesses, and these businesses represent the donor's single largest asset. A 1994 survey conducted by the Bureau of the Census identified 4.8 million employer businesses.[20] These businesses may be as simple as a consulting firm with a single employee or as complex as a multi million-dollar international construction company. The one thing they have in common is that they are held by a limited number of owners and the company stock is not traded in public markets.

When a donor makes a gift of non-publicly traded securities in excess of $5,000, she must attach Form 8283 with an appraisal summary that meets the substantiation requirements of the Internal Revenue Code.[21] When the gift value exceeds $10,000, a full qualified appraisal must be attached to the return.[22] Many valuation and accounting firms specialize in providing these appraisals.

3. Partnership Interests

Partnerships may carry on family businesses, real estate for multiple owners, tax shelters, and even traditional investment assets for a family or investment club. The transferability of a partnership interest is governed by the partnership agreement. In most cases, the interests are transferable, but the planner should check the governing documents before proceeding to make a transfer. Partnership interests may be general or limited. A general partner is responsible for making the decisions about operation of the partnership, but it is also fully liable for the partnership's debts and liabilities. A limited partner generally is not considered to materially participate in the daily business of the partnership, and has limited liability for its debts and liabilities; this liability is limited by the size of the contribution or ownership of the limited partner.

4. Tangible Personal Property

Tangible personal property is defined as an asset that can be touched, handled, or moved by an individual (as opposed to intangible assets such as ownership in a company or debt that is represented in a certificate, contract, or electronic form). The most common tangible personal property assets include

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[18] Websites that report prices of mutual funds include <www.morningstar.com>, <http://finance.yahoo.com>.

[19] Reg. § 25.2512-2(b), distinguishing valuation methods for securities that trade on a public market and those that do not.

[20] Bureau of the Census, "Census Bureau Says Percent of Employer Businesses Owned by Women Continues to Increase," (April 8, 1997), <www.census.gov/Press-Release/cb97-57.html>.

[21] The substantiation requirements are found in Reg. § 1.170A-13 and are discussed in detail in Chapter 8 (for income tax requirements) and Chapter 9 (for estate and gift tax requirements).

[22] Reg. § 1.170A-13(c)(2)(ii)(B)(1).

art, furniture, coin and stamp collections, livestock, jewelry, equipment, cars, boats, clothes, or any similar asset or collectible owned by a donor.

The charitable deduction for a gift of tangible personal property is affected by how the gift will be used by the nonprofit, i.e., whether it will be used in meeting the charity's mission or whether it will be sold on receipt. Pursuant to this "related use" rule, the donor may deduct the full market value of a contribution of tangible personal property related to the use of the organization, but is limited to the basis of the asset for an unrelated use contribution.[23] When the charitable deduction for tangible personal property is unrelated to the charity's mission, the value of long-term appreciated property must be reduced by the amount that would have been the donor's long-term capital gain in the property had it been sold; essentially, the rule limits the donor's deduction to his basis.[24]

An asset has a related use if it is given to the organization for use in carrying out its mission and the intent is for it to be used for that purpose. Related use gifts may include a gift of a painting to a museum, a gift of a heart monitor to a hospital, or a gift of a computer to a school. If the donor contributes property for the charity for sale, the gift will not be considered related use, even if the gift would have been if the nonprofit had retained it. So, for example, gifts donated for auction are considered to be unrelated use items since the gifts are sold and are not used by the nonprofit. Likewise, a gift contributed to discharge a capital campaign pledge is an unrelated use gift.

5. Real Estate

Real estate is a logical gift choice for many donors because it is one of the most widely held assets. A donor may own a residence, one or more vacation homes, commercial property, undivided real property interest, rental property, or business property. Over time, the donor may no longer need or use the property, and it may produce little or no income. Worse, it may have costs associated with upkeep, such as insurance, property taxes, structural maintenance, and grounds maintenance. Therefore, transfer of the real property to the nonprofit may not diminish the donor's income and may actually improve his cash flow if expenses are avoided.

Real estate is one of the most difficult and expensive gifts to make because of potential liability for environmental damage and the legal costs associated with title policies, deeds, appraisals, and inspection. Charities may also be reluctant to accept real estate because of the costs to maintain the property and the difficulty of selling the property in a timely manner. In fact, some charities refuse to accept any gifts of real property because they do not have the staff to analyze the transaction and follow through with the property's maintenance and sale.

Most gifts of real estate require the services of a qualified appraiser since the donor must obtain a qualified appraisal for gifts of real property in excess of $5,000.[25] Valuation of gifts of real property can be complicated. Factors that affect value include the strength of the real estate market, the location of the

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[23] IRC § 170(e)(1)(B)(i); Reg. § 1.170A-4(b)(3)(i).

[24] IRC § 170(e)(1)(B).

[25] Reg. § 1.170A-13(b)(3)(i). See Chapter 8 for more information about qualified appraisals.

property, restrictions or easements associated with the property, income generated by the property, the ownership structure, and the potential for environmental liability. Normally, the property is valued at its highest and best use (without regard to the way the donor has used the property), unless there are conditions that make highest and best use remote, speculative and conjectural.[26] The IRS publishes specific guidelines on how to use market data to appraise undeveloped real estate for income, estate, and gift tax purposes.[27]

Most charities will not accept gifts of real property without a written assessment asserting that the property is free from environmental damage. The Comprehensive Environmental Response, Compensation and Liability Act (CERCLA or Superfund) enacted in December 1980 created a strict liability structure for "responsible parties" in the chain of title of environmentally damaged property. Under the statute, the liability for the cost of cleaning up the property exists without regard to the owner's knowledge of or participation in the damaging activity.

6. Savings Bonds

There are three types of savings bonds issued by the United States Government: Patriot Bonds (formerly EE Bonds), Series I Bonds, and Series HH/H Bonds. Patriot Bonds are savings bonds issued at a discount by the U.S. Government.[28] Purchasers can elect to report the accrued interest on the bonds annually or to defer recognizing income until redemption; most chose to defer. When holders of Series EE/E Bonds with deferred income contribute the bonds to a charity during life, the gift is valued at the full fair market value of the bond (rather than the discounted value paid for the bond), but the donor must report the accrued interest (as ordinary income) in the year of the gift.[29] Conceptually, this is the opposite tax result from a gift of appreciated stock for which the donor receives a charitable deduction equal to market value and avoids the capital gains tax on the appreciation.[30] A donor would be better off to simply make a gift of cash.

Patriot Bonds cannot be reregistered in the charity's name during life without triggering the tax. The only way to avoid recognition of ordinary income on these bonds is to transfer them to charity through a specific bequest under the will (or, if the bonds are held in a revocable trust, through a testamentary disposition to charity in that trust).[31] A specific bequest of the bonds will shift the accrued income to charity and avoid taxation as income in respect of a decedent in the donor's estate.[32] This is not possible

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[26] Rev. Proc 79-24, 1979-1C.B. 565, Section 3.

[27] Rev. Proc. 79-24, 1979-1 C.B. 565.

[28] For savings bonds redemption values, six month earnings as an annual yield, and yield from issue date for Series EE/E bonds can be found at www.publicdebt.treas.gov/sav/savreport.htm>>.

[29] Reg. § 1.170A-4(a)(3).

[30] Actually, the result is generally much worse, since the gain avoided on gifts of appreciated securities is long-term capital gain, while the income recognized on disposition of E or EE Bonds is taxed as ordinary income.

[31] See Ltr. Rul. 8010082 (December 13, 1979) for further information on EE/H bonds. Also see Ltr. Rul. 9507008, where IRS ruled that savings bonds in a revocable trust with testamentary provisions used to discharge pecuniary bequest to charity triggered recognition of income in respect of decedent in the trust.

[32] IRC § 691(a)(1).

when bonds are owned jointly with right of survivorship, since these bonds will pass to the survivor and will not be subject to the terms of the will. The survivor of the two interests may leave the bonds to charity under will.

Series I Bonds are the most recent addition to the savings bond options. These bonds, first offered in September, 1998, are sold at face value and pay interest that is adjusted twice a year to reflect increases in the Consumer Price Index for all Urban Consumers (CPI-U). Interest is compounded semi-annually. The bonds have a thirty year maximum, but may be redeemed for cash after a six-month holding period. The interest on the bonds is deferred for federal tax purposes during the life of the bond. The Bonds are exempt from state and local income taxes. The gain in these bonds is taxed as ordinary income in the year of maturity, redemption, or disposition. Therefore, these assets make poor gifts for charity during life, but make excellent gifts to charity under will.

Series HH/H Bonds are savings bonds issued at face value that pay annual interest. When donors contribute Series HH/H bonds to charity during life, the gift is valued at the full fair market value of the bond. If, however, the HH/H bonds have been converted from EE/E bonds (and the interest was deferred, rather than paid, on conversion), the gift to charity will trigger the deferred ordinary income accrued during the period the donor owned the EE/E bonds.[33]

C. Gift Planning Tools: Gifts That Pay Income

Split interest gifts – charitable remainder trusts, charitable gift annuities, pooled income funds, and charitable lead trusts –divide income and principal benefits between charitable and non-charitable beneficiaries. Even though these gifts represent only a small percentage of all charitable gifts each year, they intrigue donors and professional advisors by offering flexibility in planning and multiple tax benefits. Ultimately, split interest gifts are simply options that enhance estate and charitable planning; they are not tax or investment products. Sometimes, a simple outright gift of the right asset may do a better job of meeting donor goals.

1. Charitable Remainder Trusts

Broadly described, a charitable remainder trust is an irrevocable trust that benefits the donor or other individuals named by the donor, for a term of years or lives. Upon termination, remaining assets pass to one or more qualified charities. The Internal Revenue Code defines a charitable remainder trust in a more technical way. [34]

- It is an irrevocable trust created by a donor;
- To which the donor contributes property;
- Which provides for a specified distribution, at least annually, to one or more beneficiaries, at least one of which is not a charity. This annual distribution is measured as a sum certain (an annuity trust) or a fixed percentage of the market value of the trust (a unitrust),

[33] Ltr. Rul. 8010082.

[34] IRC § 664, Reg. § 1.664-1(a)(1)(i).

which cannot be less than 5 percent or greater than 50 percent of the trust's assets at the time measured. The trust can make no other distribution to non-charitable beneficiaries.);[35]

- Which continues for a period of time measured by a life (or lives), a specific number of years (not more than 20), or a combination the two methods;
- Which meets the definition of a charitable remainder trust and operates exclusively as a charitable remainder trust from the date of creation;[36]
- Which has at least a 10 percent anticipated charitable remainder at the time of creation (or at the time of any addition to the trust, if permitted);
- Which has less than a 5 percent chance that the corpus will be depleted when the trust terminates to the charitable beneficiary; and
- Which pays the property in the trust at termination to, or for the benefit of, one or more qualified charitable organizations.

There are two basic forms of charitable remainder trusts: the annuity trust and the unitrust. A charitable remainder annuity trust pays a fixed percentage of the initial market value of the trust to one or more non-charitable beneficiaries on an annual basis. This annuity rate is fixed at the creation of the trust and does not change. Additional property may not be added to the trust.

The donor selects the distribution amount at the time of creation of the trust. This amount can be no less than 5% and may be no higher than 50%. The calculated charitable remainder at the time of creation of the trust must be 10% or greater.

A charitable remainder unitrust pays a fixed percentage of its market value (determined annually) to the non-charitable beneficiary. The annual payment percentage may not be less than 5% or greater than 50%. At the time the trust is created and at the time of each addition to the trust the calculated charitable remainder must be 10% or greater.

Unitrusts are more flexible than annuity trusts. The annuity trust pays a fixed amount, from income or principal, each year. However, the unitrust may use the following options:

Straight unitrust payment – the payment of the fixed percentage from whatever source necessary.

Example:	Type of Trust:	5% Straight Unitrust
	Trust Value:	$100,000
	Trust Annual Income:	$3,500
	Trust Payment:	$5,000
	Amount Paid:	$5,000

[35] A trust must be exclusively an annuity trust or a unitrust to qualify as a charitable remainder trust.

[36] Reg. § 1.664-1(a)(4).

Net income unitrust – payment of the lesser of the set percentage or actual income, whichever is less.

Example:	Type of Trust:	5% Net Income Unitrust
	Trust Value:	$100,000
	Trust Annual Income:	$3,500
	Trust Payment:	$5,000
	Amount Paid:	$3,500

Net income with makeup unitrust – payment of the less of income or stated percentage, but deficits may be "made up" in the current year to the extent of the available income.

Example: Type of Trust: 5% Net Income with Makeup Unitrust

Year 1

Trust Value:	$100,000
Trust Net Annual Income:	$3,500
Trust Payment:	$5,000 or net Income
Amount Paid:	$3,500
Deficit Amount:	$1,500

Year 2

Trust Value:	$110,000
Trust Net Annual Income:	$4,000
Trust Payment:	$5,500 or net income (plus makeup from prior years to the extent possible)
Amount Paid	$4,000
Deficit Amount:	$3,000 ($1,500 from year one, and $1,500 from year two)

Year 3

Trust Value:	$100,000
Trust Net Annual Income	$7,000
Trust Payment	$5,000 or net income (plus makeup from prior years to the extent possible)
Amount Paid:	$5,000 (annual payment) + $2,000 (makeup from prior years) = $7,000

Flip unitrust – the trust begins as a net income or net income with makeup unitrust and then "flips" to a straight unitrust in the tax year following a triggering event, such as the sale of a specified unmarketable asset, a specific date, or the occurrence of an event outside the donor's control.

Example: Type of Trust: 5% Net Income Unitrust, with Sale in Year Two, Flip in Year 3

Year 1

Trust Value:	$100,000
Trust Net Annual Income:	$3,500
Trust Payment:	$5,000 or net Income
Amount Paid:	$3,500

Year 2

Trust Value:	$110,000
Trust Net Annual Income:	$4,000
Trust Payment:	$5,500 or net income
Amount Paid	$4,000

Year 3

Trust Value:	$100,000
Trust Net Annual Income	$7,000
Trust Payment	$5,000
Amount Paid:	$5,000

TABLE 13
COMPARISON OF VARIOUS CHARITABLE REMAINDER TRUST OPTIONS
$100,000 TRUST, SINGLE LIFE AGE 72, JANUARY 2014 (2.2% CFMR), 3.5% INCOME

	Charitable Deduction	*Payment Year One*
Straight 5% Unitrust	$55,438	$5,000
5% Net Income Unitrust	$55,438	$3,500
5% Net income with Makeup Unitrust	$55,438	$3,500
5% Net Income Unitrust with Flip Provision	$55,438	$3,500

2. Charitable Gift Annuities

A charitable gift annuity operates much like an annuity issued by an insurance company. The donor pays the charity a specific sum of money and in return receives a guaranteed annuity contract for life. There are two major differences between commercial annuities and charitable gift annuities.

1. Commercial annuities are issued by regulated insurance companies. A charitable gift annuity is issued by a charity, and may or may not be regulated by state and federal authorities.

2. A commercial annuity is a straight business transaction involving an annuity contract. The charitable gift annuity is part annuity and part gift to charity.

Charitable gift annuities are the oldest form of split interest gift. Churches originally issued gift annuities for members of the parish or congregation to allow parishioners to make a gift to the church and receive a fixed income through old age. The first known gift annuity was issued by the American Bible Society in 1843.[37] Many of the country's older schools, hospitals, and national church organizations have offered charitable gift annuities successfully for years. Now smaller nonprofits are clamoring to add this gift option, so their donors do not migrate to other charities to make this kind of gift.

It is easy to understand the popularity of charitable gift annuities as a planned giving option.

- Charitable *gift annuities are easy for charities to explain and donors to understand.*

- The *gift provides the donor with a guaranteed, specific income stream.* Often this income stream is higher than the donor can receive from a certificate of deposit, a U.S. Treasury bond, or other investment.

- The *transaction is part gift,* meaning that in creating a charitable gift annuity the donor also makes a gift to a favorite charity.

- The *gift generates a charitable income tax deduction for the donor* in the year in which the gift is made.[38]
- The *transaction creates beneficial capital gain treatment* for the donor who contributes appreciated property.

- *Creating the gift is simple,* requiring a one or two-page governing instrument supplied by the charity. In other words, there are no legal costs associated with having an attorney prepare documents.

A charitable gift annuity is an outright gift to charity in exchange for a promise to pay an income stream for life.[39] It is defined as follows:[40]

- A gift annuity is an *irrevocable transfer of property to a qualified charitable organization with a concurrent execution of an annuity agreement.* The agreement between the charity and the donor can involve only the charity's obligation to make the annuity payment.

- The gift annuity document *obligates the charity to pay the donor, or individuals designated by the donor, a stream of payments for life.*

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37 Minton, Frank, *Charitable Gift Annuities The Complete Resource Manual* (Planned Giving Services: 1999), p. A-1.

38 Gift annuities involve an outright gift to charity deductible under IRC § 170(c). The contract element of the life interest is addressed in IRC §§ 501(m)(3)(E), -(5),514(c)(5).

39 IRC §§ 501(m)(3)(E), -(5),514(c)(5).

40 IRC § 514(c)(5).

- The *annuity amount must be fixed and guaranteed by the general assets of the charitable organization* issuing the annuity. For example, the charity cannot premise the payment on whether the assets contributed by the donor generate enough income to cover the payments or whether those assets endure the annuity obligation term.

- The *payments to the annuitant(s) must be based on the age of the annuitant(s) and the number of individuals receiving the payment.* (The contract term cannot be based on a term of years.)[41] There can be no more than two annuitants named in the contract.[42]

- The *gift portion of the transaction – the calculated remainder for charity – must represent at least 10 percent of the gift's value on date of contribution.*[43]

Most charities use the rates set by the American Council on Gift Annuities (ACGA).[44] ACGA's primary purpose is to recommend suggested rates for charitable gift annuities for the thousands of charities in the United States that issue charitable gift annuities, and to educate the field about the principles, purpose, and use of charitable gift annuities in charitable giving. The Council retains the services of an actuarial firm to advise and consult on matters pertaining to life expectancies and related matters. The organization's web site provides information about state laws applicable to issuance of charitable gift annuities and the various rate tables. Rates are changed periodically as the economic environment changes. Sample single life rates effective since January 1, 2012 are set out in Table 14.

TABLE 14
SAMPLE SINGLE LIFE CHARITABLE GIFT ANNUITY RATES RECOMMENDED BY THE AMERICAN COUNCIL ON GIFT ANNUITIES (EFFECTIVE JULY 1, 2011)

Age	*Recommended Annuity Amount*	*Age*	*Recommended Annuity Amount*
50	3.7%	74	5.7%
51-52	3.8%	75	5.8%
53-54	3.9%	76	6%
55	4%	77	6.2%
56-57	4.1%	78	6.4%
58	4.2%	79	6.6%
59	4.3%	80	6.8%

41 IRC § 514(c)(5)(B).

42 *Id.*

43 IRC § 514(c)(5)(A).

44 American Council on Gift Annuities, http://www.acga-web.org.

Age	Recommended Annuity Amount	Age	Recommended Annuity Amount
60-61	4.4%	81	7%
62-63	4.5%	82	7.2%
64	4.6%	83	7.4%
65	4.7%	84	7.6%
66-67	4.8%	85	7.8%
68	4.9%	86	8%
69	5%	87	8.2%
70	5.1%	88	8.4%
71	5.3%	89	8.7%
72	5.4%	90+	9%
73	5.5%		

EXAMPLE: On July 16, 2012, Kathryn Jones, age 77, contributed 100 shares of Regions stock with a market value of $25,000, and a cost basis of $9,000, to the Birmingham Jewish Federation in exchange for a guaranteed annual annuity of 6.8 percent. She received a charitable deduction of $11,641.63 for the gift. Her annual payments of $1,550 are characterized as follows during her life expectancy of 11.1 years:

Ordinary income	$346.54
Capital gain income	$878.02
Tax-free portion	$325.44

Once Kathryn reaches life expectancy, the entire annuity amount is taxed as ordinary income.

TABLE 15
TYPES OF CHARITABLE GIFT ANNUITIES

Form of Charitable Gift Annuity	Description
Immediate charitable gift annuity with donor as annuitant	Single life charitable gift annuity for the donor
Immediate charitable gift annuity with someone other than the donor as annuitant (gift)	Single life charitable gift annuity for an individual other than the donor - this is a gift with gift tax implications and will also generate immediate capital gains on the non-charitable portion of the gift in the year of gift

Form of Charitable Gift Annuity	*Description*
Two-life charitable gift annuity	Two-life charitable gift annuity for the joint lives of the named annuitants. There is a gift to the non-donor that may have gift tax implications; if the donor is not one of the annuitants, the non-charitable portion of the capital gains in the gift will be taxed to the donor in the year of the gift
Stepped charitable gift annuity	A charitable gift annuity that sets out an increasing schedule of income over the term of the annuity contract
Deferred charitable gift annuity	A gift annuity that defers payments until a specific date in the future at least one year from the issuance of the gift annuity
Flexible deferred charitable gift annuity	A charitable gift annuity that allows the annuitant to select the date on which the annuity payments begin - the amounts are set out in the contract - the longer the deferral period, the higher the annuity amount
Charitable gift annuity under will	This gift annuity is not effective until death - the donor can include a provision in the will directing a transfer to a charity in exchange for a charitable gift annuity for the benefit of a named beneficiary

TABLE 16
SAMPLING OF DEDUCTION AVAILABLE TO DONORS AT VARIOUS AGES USING JULY 1, 2011 ACGA ANNUITY PAYMENT RATES; DATE OF GIFT 1/18/2014
TABLE ASSUMES: GIFT OF $10,000, SINGLE LIFE, QUARTERLY PAYMENTS

Age	*Annuity Payment Rate*	*Annuity Payment Amount*	*Charitable Deduction*
60	4.4%	$440	$2,748.84
65	4.7%	$470	$3,362.99
70	5.1%	$510	$4,001.58
75	5.8%	$580	$4,502.76
80	6.8%	$680	$4,965.08
85	7.8%	$780	$5,621.55
90	9.0%	$900	$6,269.05

3. Pooled Income Funds

Pooled income funds are one of the least-used forms of charitable gifts. This is largely because the gift is difficult to explain to donors and the income stream generated by a pooled income fund seems meager in comparison to a charitable gift annuity. A pooled income is a separate tax entity, generally a trust, created by a charity that allows donors to contribute assets and receive a life income from units of the fund. .

The pooled income fund is often called the poor man's charitable remainder trust. The two gifts are similar only in the sense that each allows the donor to retain an income stream from the gift made to charity. Beyond that, these options do not have much in common. The methods of making the gift, the income tax treatment of the non-charitable beneficiary's annual payment, and the amount passing to charity at termination have significant differences.

Charities find the pooled income fund is an attractive gift vehicle for the following reasons:

- The *charity can pool an unlimited number of gifts* and more easily accommodate small split-income gifts.

- The *charity controls the funds,* including the trustee and investment management.

- The *charity receives the full amount of the gift* and takes no risk that the principal will be exhausted (since the donors are limited to income only). Compare this to a charitable gift annuity that is designed to deliver only 50 percent of the amount contributed (the remainder representing the portion used to make the annuity payments to the donor) or a charitable remainder annuity trust that may be diminished or consumed while paying the income beneficiary.

- The *charity may maintain multiple pooled income funds* with varied investment styles to appeal to different types of donors, some preferring stable, higher income funds and others growth over time.[45]

Pooled income funds are likewise attractive to many donors. This is because:

- The *donor receives all of the income from the gift for life* and need not be concerned about annuity amounts or formula unitrust amounts that may be more or less than the income generated. Many older donors prefer to spend only income from personal investments.

- The *donor can make small gifts* or a series of gifts, without incurring legal costs.

- The *donor receives a charitable deduction* for the value of the gift, reduced by the value of the income interest expected from the gift.

- The *donor can contributed long-term capital gain property to the fund and avoid tax on the appreciation.*

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[45] Reg. §1.642(c)-5(b)(3).

The Internal Revenue Code describes a pooled income fund in the following terms:[46]

- It is a *trust created by a qualified charity* that pools contributions from donors;
- That *receives irrevocable transfers of property* from donors;
- That *identifies units of the fund, based on the market value of the contributed property,* that are held for the benefit of the named beneficiary or beneficiaries;
- That *distributes income from the fund to the named beneficiary or beneficiaries for life; and*
- *At the death of the named beneficiary or beneficiaries of the income interest, liquidates the units and distributes the assets to the charitable organization.*

Whether a donor chooses a charitable gift annuity or a pooled income fund will depend largely on his or her goals and the options offered by the charity. Charitable gift annuities are most attractive to donors interested in a stead stream of income, and a higher stream of income than paid by traditional fixed income securities. Pooled income funds will appeal to those who want to make a gift, but want to retain the income from the property – whatever it is – for their lives.

D. Gift Planning Tools: Gifts Deferred Until Death

The real drama in gift planned involves developing the vision of the gift's impact, and devising a way to fund that vision at a later date with a deferred gift. Deferred gifts, as defined here, are gifts that are not completed until the date of death of the donor. These gifts are put in place during life but are revocable, which means that the gift may be changed or altered before death by the action of the donor. Deferred gifts are popular because they allow the donor to continue to use the property during life.

1. Bequests

A bequest, in the context of charitable giving, is a gift made to charity under a will or a will substitute such as a revocable trust.[47] Bequests are a popular method of giving, representing $23.41 billion of the $316.23 billion contributed to charity in 2012 as reported in *Giving USA 2013*.[48] Bequests are flexible and can be created in any of the following ways:

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[46] IRC§ 642(c)(5).

[47] Some clients have revocable trusts, which are grantor trusts that hold assets for the donor, that are designed as will substitutes to avoid probate proceedings and the public review that is a part of probate. (Documents filed for probate are available to the public on request.) These revocable trusts provide for distribution of the owner's assets at death.

[48] *Has America's Charitable Giving Climbed Out of Its Great Recession-Fueled Trough?*, http://www.philanthropy.iupui.edu/news/2012/06/pr-GivingUSA2012.aspx.

TABLE 18
BEQUEST STRUCTURE OPTIONS

Form of Bequest	*Example*
A specific dollar amount	I leave ABC Federation $10,000.
A percentage of the total estate	I leave ABC Federation 10% of my gross estate.
A percentage of the residue	After distribution of the specific bequests (to other beneficiaries) and payment of expenses and taxes, I leave ABC Federation one-third of the residue of my estate.
All of the remainder	I give ABC Federation all of the property remaining after paying debts, expenses, and specific bequests.
A specific class of property	I leave ABC Federation all of my savings bonds.
A specific asset	I leave ABC Federation my residence at 2320 Crest Road, Birmingham, Alabama 35223.
A formula distribution	I leave ABC Federation an amount equal to ten times the size of the average gift made to ABC Federation over the last three years of my life.
A contingent bequest	In the event my wife does not survive me, I give the property set aside for my wife to ABC Federation.

2. Insurance Beneficiary Designations

Many donors choose to name charities as beneficiary of their life insurance policies. This designation may be primary or secondary. If, at the death of the insured owner, the proceeds are transferred to charity, those proceeds qualify for a charitable deduction.

3. Retirement Plan Beneficiary Designations

Retirement accounts, which include pension plans, profit sharing plans, stock bonus plans, Keogh Plans, 401(k) plans and Individual Retirement Accounts (IRAs), generate a number of tax consequences on the death of the owner. These tax consequences make qualified retirement assets and IRAs very cost effective as testamentary charitable giving vehicles.

Retirement plans have lifetime income tax advantages that promote savings for retirement purposes. The tax advantages of retirement and IRA plans work to defer, rather than to eliminate, taxes. The early death of the retirement plan owner accelerates those taxes at the same time that estate taxes are due. The combination of taxes can create an ugly result.

Retirement plan assets are taxed at several levels:

- Income taxes are owned on assets on which the decedent would have paid income if alive. The tax may run up to 35% at the 2006 federal income tax rate in addition to state taxes that are due.

- The full market value of the retirement plan assets will be taxed with estate tax in the owner's estate. The top rate for this tax is 46% in 2006.

- Finally, generation skipping tax may apply if the owner directs that the plan assets be distributed to a beneficiary two or more generations below the owner. This tax is assessed at a flat rate equal to the maximum estate tax rate (45% in 2008).

4. Pay On Death Accounts

Another easy way to make a gift to charity is to use a "pay on death" or "transfer on death" designation on your checking or savings account. This designation is made during the account registration process, or by signing such a designation after the account is established. If your charity is named as the beneficiary, the assets will transfer directly to the charity at the donor's death. Simply guide donors to their banking representative to see how to complete this simple type of gift. It may also be possible to make a "transfer on death" designation of a brokerage or other financial account. The account representative for the financial assets will be able to answer any questions about this.

While this method is easy, it does have a downside. It's virtually impossible to guess how much will remain in the account at the donor's death. Unless the donor is certain to leave a specific sum in the account in anticipation of the transfer, it may prove more valuable to have a specific sum left to your charity under the donor's will.

IX. Talking to Donors About Endowment

A. What We Know About Donors

1. Bank of America's Study of High Net-Worth Philanthropy

Bank of America sponsored a 2006 study focusing on the philanthropic profile, motivations, and goals of high net-worth individuals. Surveys were sent to 30,000 high net-worth households, defined as those with incomes of more than $200,000 and/or assets exceeding $1 million. This high net-worth group represents 3.1% of all U. S households and is responsible for 2/3's of U.S. philanthropy.[49] Key findings from this research included the following:

- 98% of high net-worth households made a gift to charity in 2005.[50]

[49] Bank of America Study of High Net-Worth Philanthropy, Initial Report, Center on Philanthropy at Indiana University (October 2006), http://newsroom.bankofamerica.com/index.php?s=press_kit&item=63.

[50] Id, p 5.

- The top motivations for charitable giving focused primarily on the impact and purpose of the gift. The top nine responses are listed in Table 18.[51] Factors that would motivate additional gifts are detailed in Table 19. [52]

TABLE 17
IMPORTANT MOTIVATIONS FOR GIVING

Motivations	*% Citing Motivation*
Meeting critical needs	86.3%
Giving back to society	82.6%
Reciprocity	81.5%
Bring about a desired impact	68.5%
Believe nonprofits should provide services government cannot provide	64.4%
Being asked	62.4%
Set an example	62.1%
Identification with causes	62.1%
Religious beliefs	57%

TABLE 18
FACTORS THAT WOULD PROMPT ADDITIONAL GIFTS

Factor	*% Citing*
Charities spent less money on administration	74.8%
Donor was able to determine impact of his/her gift	58.3%
The donor felt more financially secure	52.7%
The donor received a better return on investments	46.6%
Donor was not already financially committed	40.2%
Knew of more nonprofits	36.3%

[51] Id., p. 6.

[52] Id., p. 7.

Factor	% Citing
Able to use skills in nonprofits	36.1%
Understood goals of nonprofits	31.1%

- The survey group had created both current and deferred charitable gift vehicles as shown in Table 19.[53] (Note: this does not include outright gifts to charity annual appeals for operating funds.)

TABLE 19
TYPES OF CHARITABLE GIFT VEHICLES USED BY HIGH NET-WORTH DONORS

Type of Charitable Gift	% Who Had Created This Type of Gift
Contribution to major campaign	64.6%
Provision for charity in will	41.2%
Used stocks or mutual funds to make gift	31.8%
Created foundation	19.5%
Created donor advised fund	15.9%
Used stock of family-owned business to make gift	14.7%
Used non-financial, physical asset to make gift	12.3%
Created a split-interest trust (charitable remainder trust or charitable lead trust)	11.5%
Charity as beneficiary of IRA or retirement plan	10.2%
Charity as beneficiary of life insurance policy	5.7%

[53] Id., p. 7.

B. The 2008 High Net-Worth Update

Bank of America sponsored an update on the high net-worth donor survey that will be published in full in the first quarter of 2009.[54] Several important findings were reported in the Executive Summary of the report posted in early December 2008.[55]

- The three top reasons donors stopped giving to a specific charity included: 1) They "no longer feeling connected to the organization;" 2) they decided to support other causes; and 3) they were being solicited too often.
- In 2006, donors cited nonprofit personnel and peers as the top sources of gift planning advice; in 2008, donors cited professional advisors (accountants, attorneys, and financial wealth advisors) as the top three sources of advice.
- Donors cite the desire to "give back to the community" as the primary motivation for giving; public recognition was of little interest.
- Donors feel the gifts they make have a greater impact on them personally – personal fulfillment – than on the charitable recipients of those gifts.
- Setting an example for children is an important motivation in giving. Donors use family involvement in giving as a way to pass philanthropic values to the next generation; private foundations and donor advised funds often result.
- Parents are the leading source of philanthropic education; religious organizations are the second leading source.
- Donors expect transparency, accountability, and protection of privacy from the charities they support.

C. The 2010 High Net Worth Update

The 2010 identified some consistencies and some changes in giving:

- High net worth donors are still giving - 98.2% gave to charity in he prior year.
- Average giving dropped 34.9% between 2007 and 2009 from $83,034 to $54.016.
- Donors give when they believe their gift will make a difference (72.4%), when they feel financially secure (71.2%) and when they know the charity uses the donation efficiently (71%).
- The more they volunteered, the more they gave:
    - Non-volunteers $46,414/average
    - Volunteers between 101 and 200 hours, $48,860/average

[54] Check the Center on Philanthropy's website, Research, http://www.philanthropy.iupui.edu/Research/.

[55] http://www.philanthropy.iupui.edu/News/2008/pr-HNWPhilanthropy.aspx.

- Volunteers more than 200 hours, $75,662/average
- Professional advisors are increasingly important in making giving decisions - most frequent advisors:
  - Accountants (67.5%)
  - Attorneys (40.8%)
  - Financial/wealth advisors (38.8%)

D. Center on Philanthropy at Indiana University Bequest Study

In 2006, the Center on Philanthropy at Indiana University (CPIU) surveyed 2,279 respondents in Indiana, St. Louis, and Memphis, combining it with data from the October 2006 *Bank of America Study of High Net Worth Philanthropy* (the High Net Worth Study)[56] to identify factors that not only identify potential bequest donors but detail donor motivation. This study, *Bequest Donors: Demographics and Motivations of Potential and Actual Donors,"* (the Bequest Study) was published in March 2007. While both studies were conducted by CPIU, the Bequest Study focused on the general population and the High Net Worth survey focused on donors with assets greater than $1 million or income of $200,000 or greater.

- **Who Has a Will?**

Only 48.4% of those surveyed had a will. This is slightly higher than the 44.4% reported by FindLaw in its 2002 study[57] and the 42% reported in NCPG's 2000 Survey of Donors.[58] These figures are sobering reminders that most individuals do not have a will adding a significant challenge to the solicitation of bequest gifts.

- **Demographics of Individuals with Current Bequest Commitments**

Overall, 7.5% of the Bequest Study respondents reported a gift to charity under will, slightly lower than the 8% reported in the 2000 NCPG survey and substantially lower than the 41.2% found among the High Net Worth Study respondents. The biggest surprise was the age of the donors who had made bequest commitments. Individuals age 40-50 reported the highest frequency of bequest commitments (28.1%) followed by individuals age 50-60 (21.9%) and age 60-70 (20.6%). By comparison, only 11% of the 70-80-year-old group and 8.9% of the 80+-year-old group reported a bequest under will.

When the same question was put to the respondents in the High Net Worth Study group, individuals reporting bequests were more likely to be older, with the greatest concentration in the 50+ age

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[56] "Bank of America Study of High Net Worth Philanthropy," The Center on Philanthropy at Indiana University (Indianapolis, October 2006), www.bankofamerica.com.

[57] "Most Americans Still Don't Have a Will," FindLaw (August 19, 2002), http://company.findlaw.com/pr/2002/081902.will.html.

[58] Planned Giving in the United States 2000: A Survey of Donors, National Committee on Planned Giving (Indianapolis: 2000), www.ncpg.org.

group.[59] Both findings direct gift planners to younger donors than traditionally targeted by bequest programs which generally focus on donors age 65 and older. Results for the Bequest Study and the High Net Worth Study are reported and compared in Table 20.

TABLE 20
BEQUEST COMMITMENTS IN PLACE, BEQUEST STUDY AND HIGH NET WORTH PHILANTHROPY STUDY

	Bequest Study(March 2007)	*High Net Worth Philanthropy Study (October 2006)*
30-40	8.9%	1.4%
40-50	28.1%	9.4%
50-60	21.9%	19.3%
60-70	20.6%	27.5%
70-80	11.0%	25.1%
80+	8.9%	17.3%

- **Individuals Willing To Consider a Bequest Gift**

One of the greatest opportunities for charities is the large percentage of the survey group - 31% - who would be willing to consider a bequest. The largest concentrations of these potential bequest donors are ages 40-50 (28%) and 50-60 (24%), as shown in Table 21. The data again suggests bequest marketing and solicitation will be more effective when focused on younger donors.

TABLE 21
INDIVIDUALS WHO WOULD CONSIDER NAMING A CHARITY UNDER WILL

Age Band	*Bequest Study*	*Percentage of Sample*
30-40	18%	18.2%
40-50	28%	28.8%
50-60	24%	18.3%
60-70	5%	10.9%
70-80	3%	7.8%
80+	1%	3.7%

- **The Impact of Income Level on Bequest Giving**

Finally, the study analyzed the likelihood of a bequest inclusion or consideration of a bequest inclusion by income level. The researchers found bequest giving – and the potential for new bequests – was strong across all income levels reminding gift planners bequest giving is not exclusive to major gift donors and is not driven by taxes alone. Table 22 reflects incidences of bequest intentions, and the potential for bequest creation among five income levels.

[59] Bank of America Study of High Net Worth Philanthropy, Initial Report, http://newsroom.bankofamerica.com/index.php?s=press_kit&item=63. This group, which comprises 3.1% of the population, is estimated give 2/3's of all household gifts in the United States.

TABLE 22
BEQUEST INTENTIONS AND POTENTIAL FOR BEQUESTS AMONG VARIOUS INCOME LEVELS[60]

	<$25,000	$25,000 - $49,999	$50,000 - $74,999	$75,000 - $99,000	$100,000+
Bequest in place	6.6%	7%	7.6%	6.5%	10%
Would consider bequest	28.4%	34.6%	28.8%	25.99%	35.63%

E. Boston College Social Welfare Institute Projections

In 1998, researchers at the Boston College Social Welfare Research Institute published a study projecting the intergenerational transfer of wealth expected to occur between 1998 and 2052.[61] That study estimates the transfer will range from a low of $41 trillion to a high of $136 trillion, figures substantially higher than the frequently used $10.4 trillion figure developed in the 1990's by Robert Avery and Michael Rendall of Cornell.

The researchers based the simulation model on certain assumptions that included a baseline for 1998 household wealth of $32 trillion; a rate of wealth growth ranging from 2% (low estimate) to 4% (high estimate) occurring at a steady rate (no recessions, no high growth years); and assumptions about certain age bands and rates of household savings, spending over savings, and growth in wealth.

Havens and Schervish further projected that charities will benefit heavily from this transfer in an amount ranging from a low of $6 trillion to a high of $25 trillion. These projections were based in large part on their findings in reviewing trends in estate tax returns.

In 2003, responding to concerns raised about economic changes that have occurred since 1998, Havens and Schervish published an updated commentary addressing the impact of slower economic growth, the bear markets of 2000-2003, longer life spans, the tendency to exhaust personal assets (leaving less to transfer) when life spans extend, and other issues impacting their earlier work.[62] They concluded that the $41 trillion estimate was valid and represented the low end of the potential transfer amount.[63]

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[60] Bequest Study, Figure 6.

[61] A summary of the study can be found at <www.bc.edu/bc_org/avp/gsas/swri/> in the article entitled "Millionaires and the Millennium: New Estimates of the Forthcoming Wealth Transfer and the Prospects for a Golden Age of Philanthropy."

[62] Havens, John J. and Paul G. Schervish, "Why the $41 Trillion Wealth Transfer Estimate is Still Valid," Planned Giving Design Center (Gift Planner's Digest, January 27, 2003), <www.pgdc.net>.

[63] *Id.*

F. How to Identify the Best Prospects

1. Avoiding the Pitfalls

The three biggest mistakes fundraisers can make in identifying major and planned gift prospects are these:

1) *Chasing the individuals with publicized high net-worth.* These individuals may be earmarked because "everyone knows" they are wealthy perhaps because they're on the front page of the paper as the largest stockholder in a local company, or come from a wealthy family. Having wealth does not predispose someone to giving that wealth to your charity. And if they are highly publicized, there is likely a long line around the block of individuals trying to get that money.

2) *Focusing all your attention on individuals who have made the "big gifts" to your charity.* First, your charity relies on this small, inner circle to make the big contributions. More and more often I'm finding donors who make a substantial contribution during life, may make a lesser contribution through their estate.

3) *Assuming donors who make small gifts are not capable of making larger or estate gifts.* Look at the history of bequest gifts received to date, and you will find many generous gifts from unexpected, smaller donors. These may be donors who would have made larger contributions during life if they had had a closer relationship with your charity.

2. Points of Contact

Donors have more than 1 million choices in charities they might support, without taking into consideration the 300,000 or more religious organizations that are not counted in that number. Donors narrow the field and give where they feel the most connected and have the greatest interest. Often, that interest is kindled as a result of participation or connection.

The closer they are connected to your charity, the more likely they are to be involved, to be donors, and to share the vision of the future. This connection can take many forms:

- *If you are a school, they may be alumni, they may return to campus, they may be on advisory boards, or attend events in cities where the school recruits.* These are powerful connections.

- *If you are a membership organization, these individuals may feel a sense of ownership.* Watch for a lack of philanthropic awareness that sometimes occurs with membership – individuals who pay for services gauge their payments to the services they receives. However, you have the advantage that they are in constant contact with your charity and its services.

- *Organizations that provide community services also have many points of contact.* Consider hospitals, for example, that treat numbers of people in the community and create a sense of gratefulness that services exist and were available when needed.

- *Some social service organizations have none of these advantages – but greatly enhance the quality of life in the community.* Points of contact may come from volunteer experiences, or special events.

Look at connection, and giving, as a partnership. Treat them as partners in your success. Share your success with them as investors.

3. Methods of Identifying Connections

Brainstorm about the ways your donors, alumni, parents, and others are connected to your charity or to your program. Use these factors. (Note, you need to be able to track these connections, and access the information, if you are to work effectively. If this isn't easy to do at present, get training on accessing the data system to make these queries.)

- *Multi-year givers.* Multi-year givers are gold at any giving threshhold. These are individuals who have been giving year over year, some at a $50 to $100 level while others at a $5,000 to $10,000 level. The fact that they give consistently means they are connected and believe in the work that you do. The higher level donors are almost always on someone's radar screen, but those giving at the $1,000 and lower level may not be. Multi-year giving is one of the strongest indicators of planned gift potential.

- *Boards and advisory boards.* Individuals who take the time and express the interest in serving in a volunteer capacity has a much higher interest and more knowledge of the impact of your charity on student lives and the communities they return to. Current board members are most connected, but do not overlook the opportunity to engage past board members who may have drifted away.

- *Volunteers.* Most charities have volunteers beyond those filling a fiduciary role on the board. You may have docents at the museum, class agents at the school, guild members who spend time with patients, or individuals who conduct tours at the zoo. These individuals get a first hand look at the impact your organization has on those they serve and are there because they believe in what you do.

- *Family members of donors, fundholders, or board members.* Reach out to family members of those involved, especially if they are philanthropically active in your community.

- *Participants in events.* Your charity likely has an ongoing stream of events that may attract interested donors and prospects. Individuals who attend these events have a greater than average interest in your charity.

- *Other indicators.* Look for other ways individuals may come into contact with your charity. You may have members, those who use your services, family members of those who use your services, or some other connection unique to your organization.

G. Talking to Donors about Endowment Gifts

The conversations about major and planned gifts are different in intent and timing. The major gift goal is immediate while the planned gift goal is deferred. They share one critical aspect in common – both are more successful if you have a relationship with the donor and are in conversation with the donor. This conversation is not driven by your goal or your charity's needs. Rather, the conversation is about the donor – the donor's charitable vision and charitable goals. It's about getting them to partner with your charity, commit to today's outcomes, and dream about the future.

1. Research Before You Go – Find Out Everything

Since the call is about the donor, research the donor before you go using your charity's records, paper files, Google, and research available through your research area (charities supported by the donor, assets, etc.). Your knowledge base should include:

1. Giving history
2. Capital campaign donor
3. Planned gift commitment (type, amount, purpose)
4. Volunteer relationship
5. Family history with your organization or your type of organization
6. Specific interests or personal goals
7. Information from public sources about the prospect's history, family and business
8. information about the prospect's philanthropic history

2. Use a Worksheet

You will have gaps in your knowledge of the donor whether it relates to volunteer roles they've filled at your charity, to date of birth, to information about the donor's family. To prepare for the call, create a worksheet with the questions you want to get answered so that you can remember them all. See Appendix E for a call worksheet.

3. The Purpose of the Call

There are some facts you must act to discover, and that is one of the key purposes of the visit and the way you build a relationship with the donor. This runs counter to the normal "sales" approach in which you open and close the conversation by telling the donor what you'd like them to contribute to, and why that is important to your charity. There's plenty of time to solicit, but you must first understand more about the donor's connection, interests, and potential motivation to give.

4. The Magic Questions

The following questions are comfortable, easy, and open-ended and designed to get the donor engaged in the conversation, make them comfortable, and to learn more about them personally.

1) *When did you make your first gift to this charity, and how did that happen?* This is a open ended question that helps you open the door to understand how your donor became engaged with your organization.

2) *Why do you support our charity?* What is it that we do that is most compelling and essential to you?

3) *What are your greatest charitable priorities now in the community? What makes those organizations you support your priorities?* Here you are trying to discover both their broad priorities (i.e., education, healthcare, arts, human services, etc.) but the specific charities they invest in, and why they invest in those specific charities. Do those charities have the most effective programs, the broadest outreach, the most visible boards, or other strengths?

4) *What are our organization's greatest challenges over the next five to ten years?* Ask the donor to partner with you in looking at the future. What are the greatest concerns they have about the roadblocks or obstacles or increases in need you face in the future?

5) *Would you consider partnering with us, and with others with similar concerns, to address those challenges?* This is the closer and the way you take their greatest interests, and their concerns, and ask them to engage with you to address those goals.

5. Identifying Interests and Objectives

Once the donor has expressed an interest in a specific area, or concerns about possible hurdles or barriers to success, you then have the opportunity to share specific projects and funding opportunities that fit those goals. Knowing the donor has a specific interest in the area gives you a much stronger platform. And having projects that fit those specific donor interests allow you to match your objectives with the donors. Both of you are ready for the conversation at that point.

6. The Most Important Thing to Remember

The most important thing to remember when making these calls and having these conversations is this: If you have selected your prospective donors carefully, you are not trying to get unwilling individuals to do something they do not want to do; you are talking with nonprofit investors about how to maximize the value of their giving and achieve their charitable visions. You are not talking to strangers, even if you have never met the individual before; you are talking to friends who have common interests and goals aligned with yours.

If you remember these operating guidelines, it will make your conversations much easier and you will more likely achieve your goals.

APPENDIX A
SAMPLE BOARD RESOLUTION COMMITTING FUNDS TO ENDOWMENT

THE XYZ CHARITY
CORPORATE RESOLUTION

WHEREAS, The XYZ Charity is a nonprofit corporation organized and existing under the laws of the State of ____________; and

WHEREAS, The XYZ Charity has made a commitment to the development of funds from public sources for the support of the programs and operation of The XYZ Charity in furtherance of its charitable mission; and

WHEREAS, The XYZ Charity conducts annual fundraising to generate funds required for operation; and

WHEREAS, The XYZ Charity desires to build an endowment to meet the future needs of the organization, and to provide resources for unexpected expenses, programs, or facility improvement;

THEREFORE BE IT RESOLVED that:

The XYZ Charity will:

1. Commit all proceeds of bequests, distributions from charitable remainder trusts, proceeds from retirement plan beneficiary designations, proceeds from life insurance beneficiary designations, proceeds from gift annuities (current and deferred), and other deferred gifts to the organization to the XYZ Endowment Pool [here substitute the name of the organization's foundation, the community foundation endowment fund for its benefit, or the segregated fund holding the organization's endowed funds], provided, however, that if such funds are transferred to XYZ with a use designated by the donor, such designation shall be honored.

2. Establish an annual spending policy for those funds, which may consist of income and some portion of the gains generated by the principal, to be used by XYZ in its operation or for the purposes designated by the donor.

3. Establish a procedure to distribute the principal of such funds, provided, however, that such distributions of principal shall be restricted to narrow situations of unexpected need and shall not generally be used for the operating budget of the foundation.

CERTIFICATE OF ADOPTION

We the undersigned do each hereby certify that the above and foregoing resolution was duly adopted on _______________ by The XYZ Charity at a regular meeting of the Board of Directors held on due notice and in compliance with its By-laws and Articles of Incorporation at which time a quorum was present and has not been modified or revoked.

____ _______________________

President, The XYZ Charity Date

____ _______________________

Secretary, The XYZ Charity Date

APPENDIX B
SAMPLE RESOLUTION ESTABLISHING ENDOWMENT
CORPORATE RESOLUTION

WHEREAS, The XYZ Charity is a nonprofit corporation organized and existing under the laws of the State of _______________; and

WHEREAS, The XYZ Charity has made a commitment to the development of funds from public sources for the support of the programs and operation of The XYZ Charity and other nonprofits in the community; and

WHEREAS, The XYZ Charity desires to expand the capacity of XYZ to meet future needs, unexpected fluctuations in income, and to fully discharge its mission; and

WHEREAS, The XYZ Charity recognizes the need to encourage donors to contribute funds to the future use and purposes of XYZ, and that to do so, XYZ must provide a method of managing and investing such funds; and

THEREFORE BE IT RESOLVED that:

1. The XYZ Charity will establish a permanent endowment to be called "The XYZ Permanent Endowment".

2. The XYZ Permanent Endowment will be held [here, indicate whether the fund will be a segregated account initially held at a bank, trust company, or brokerage, an endowment account at the community foundation, or a supporting foundation].

3. The board of XYZ, upon the recommendation of its development and investment committees, will establish policies for administration and investment management of the funds held in endowment.

4. The board of XYZ, upon the recommendation of its development and investment committees, will adopt an accounting process that allows segregation of funds for the purpose of reporting to donors and monitoring spending for designated purposes, but will permit assets to be consolidated for the purposes of investment management.

5. XYZ will ensure compliance with the disclosure requirements of The Philanthropy Protection Act of 1995.

CERTIFICATE OF ADOPTION

We the undersigned do each hereby certify that the above and foregoing resolution was duly adopted on _______________ by The XYZ Charity at a regular meeting of the Board of Directors held on due notice and in compliance with its By-laws and Articles of Incorporation at which time a quorum was present and has not been modified or revoked.

______________________________ ______________________
President, The XYZ Charity Date

______________________________ ______________________
Secretary, The XYZ Charity Date

APPENDIX C
SAMPLE LONG-TERM (ENDOWMENT) GIFT AGREEMENT

THIS AGREEMENT made and entered into this ___ day of ____________, 20__, by and between __________________________, hereinafter referred to as the "Donor", and ABC Charity, a nonprofit corporation organized and located __________, __________.

W I T N E S S E T H:

WHEREAS, the Donor has transferred and delivered to ABC Charity the cash or property set out on Schedule A of this document to be held, invested and reinvested by ABC Charity in the manner set forth herein; and

WHEREAS, ABC Charity has accepted the donation for the purposes and under the considerations hereinafter set forth;

NOW THEREFORE, in consideration of the premises and the mutual covenants hereinafter set forth, the parties do agree as follows:

1. The donation is transferred and delivered to ABC Charity for the purpose of establishing the __________________ Fund (the "Endowment.") and is to become an asset of ABC Charity and to be governed by the Articles of Incorporation for ABC Charity, and By-Laws of that organization, as amended from time to time.

2. The original contribution and any and all additional gifts subsequently transferred to ABC Charity either by the Donor or other interested contributors shall be held, invested and reinvested in the manner hereinafter set forth in paragraph 6.

3. The Donor requests that an annual distribution be made from the fund for the purposes described in paragraph 4. The amount of this annual distribution may be set by the Board of Directors of ABC Charity in accordance with a general endowment spending policy of ABC Charity. It is the intent of the Donor that the fund annually distribute a percentage of the annual market value of the fund (as determined by the Board of Directors), to include earned income and realized and unrealized gain, and that the corpus of the endowment will remain and grow in perpetuity.

4. The purpose of the Endowment is to [here insert the purposes for which the funds can be spent and specific programs if appropriate.]

5. Should ABC Charity lose its tax-exempt status as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, (hereinafter the "Code") and as an organization that is not a private foundation within the meaning of Section 509(a) of the Code, or otherwise cease to exist, the Board of Directors of ABC Charity shall distribute all assets remaining in the Endowment to its 501(c)(3) tax-exempt successor in interest so long as that successor is not a private foundation within the meaning of Section 509(a) of the Code to be used for the purposes outlined in paragraph 4. Should the successor in interest lose its tax-exempt status described in Section 501(c)(3) of

the Code and as an organization that is not a private foundation within the meaning of Section 509(a) of the Code or otherwise cease to exist, then all assets remaining in this fund shall be distributed outright to charitable organizations qualified as 501(c)(3) organizations under the Internal Revenue Code that have purposes as similar as possible to those purposes listed in paragraph 4.

Should the purpose for which this Endowment is established cease to exist, represent a need so that the Board of Directors are unable to find purposes for use of such funds, or become impractical or too difficult to administer, then the Board of Directors, by majority vote, shall have the power to redirect the funds held in this Endowment for a purpose or purposes as similar as possible to the original intent of the Donor.

6. ABC Charity hereby accepts the property contributed to the Endowment and will hereafter invest it in accordance with the investment policies and procedures of ABC Charity. ABC Charity in its sole discretion is authorized to sell, exchange, or otherwise dispose of any securities or other property held by it at any time hereunder and to deliver such instruments as may be required by either a transfer agent, exchange, or other entity effecting such transfer. These assets may be pooled with other like assets in order to facilitate an orderly and cost effective management of assets for the organization. In addition, assets held by ABC Charity may be transferred to a Foundation created to support ABC Charity and its programs (upon a vote of its Board of Directors) if such transfer facilitates an orderly and cost effective management of assets. ABC Charity is authorized to use such methods as it deems necessary or advisable for the investment, sale, exchange, or transfer of any security held hereunder and to pay reasonable compensation and expenses in connection with the performance of said services. ABC Charity shall have the sole power to determine its investment policies and procedures and to decide any and all questions in connection therewith.

7. ABC Charity may hire agents to provide investment advice, administrative management, and tax preparation as are reasonable and necessary to carry out its duties. Fees and expenses for these services shall be charged first against the income of the Endowment, and then the fund principal on a pro-rata basis against all funds held in ABC Charity together with any necessary administrative costs of ABC Charity in managing these assets.

8. This Agreement shall be irrevocable and the Donor hereby expressly acknowledges that he/she shall have no right or power either alone or in conjunction with others and in whatever capacity to revoke or terminate this Agreement; provided, however, nothing herein contained shall be interpreted so as to prevent the Donor from making further contributions to this Endowment.

9. Investment funds managed by ABC Charity are exempt from the registration requirements of the federal securities laws pursuant to the exemption for collective investment funds and similar funds maintained by charitable organizations under the Philanthropy Protection Act of 1995 (PL 104-62). Information on the investment of those funds was provided to the Donor upon execution of this document.

10. This constitutes the full and complete agreement by and between the parties and all oral agreements and/or discussions are merged herein and are null and void to the extent that they are in conflict with the terms of this document. In no event shall this Agreement be treated or interpreted as creating a

separate trust. No changes, alterations, additions, modifications, or qualifications shall be made or had in the terms, conditions, or provisions of any paragraph or item of this Agreement. Nor shall any amendment, modification or alteration be permitted that would result in this Endowment being treated as a separate trust or that would affect the status of ABC Charity as an organization described in Section 501(c)(3) of the and as an organization which is not a private foundation within the meaning of Section 509(a) of the Code.

11. This Agreement shall be governed by, and construed under, the laws of the State of _____. Jurisdiction and venue for all purposes shall be in the appropriate County of the State of _____.

12. This Agreement is binding upon the parties hereto, their successors and assigns.

IN TESTIMONY WHEREOF WITNESS the signatures of the parties hereto the day and year first above written.

____ ________________
"Donor" Date

ABC Charity

BY:_______________________________________ ________________
Executive Director Date

APPENDIX D
SAMPLE PLANNED GIVING AND ENDOWMENT REPORT

	Estimated Dollar Value	2003 Goal	Total Dollar Value for Planned Giving Recognition Society
Planned Giving Recognition Society Gifts			
Bequests			
Life Insurance Policies			
Life Insurance Beneficiary Designations			
Charitable Remainder Trust Designations			
Charitable Gift Annuities			
Charitable Lead Trusts			
Remainder Interests in Home or Farm			
Gifts to Endowment			
Total All Gifts:			
# of Members of Planned Giving Recognition Society			
# of Board Members Who are Members of Planned Giving Recognition Society			
Number of Planned Giving Calls on Donors			
Number of Contacts with Professional Advisors			
Number of Planned Giving Committee Meetings			
Number of Events			
Total			

APPENDIX E
PLANNED GIVING CALL WORKSHEET

DONOR INFORMATION

Name: ______________________________ Spouse: ____________________

Date of Birth: _________________________ Date of Birth: _______________

Address: ____

____

H. Phone: ____________ Fax: ____________ E-Mail: ____________________

W. Phone: ____________ Fax: ____________ E-Mail: ____________________

Attorney: ______________________ Phone: _______________

Accountant: ____________________ Phone: _______________

Financial Planner: _________________ Phone: _______________

Broker: ________________________ Phone: _______________

Other Professional: ________________ Phone: _______________

Threshold question: is the donor interested in making?

a. A current gift
b. A gift that pays income
c. A gift deferred until the future

Questions for current gifts:

1. Would you like to make a gift without writing a check by using a non-cash asset?
2. Have you considered the type of asset you might use? The most popular is publicly traded stock. However, other possibilities include real estate, non-publicly traded stock, or personal property. (If interested, use the worksheet that follows to gather information.)
3. Are you interested in completing this gift this year for income tax purposes? If not, when do you expect the transaction to occur?

   ____
4. Is this gift jointly held? If so, with whom? _______________

Questions for life income gifts:

1. Would you like this gift to pay income to you, to you and your spouse, or to whom? ______________________ (Make sure you have the DOB of all persons involved in receiving the income stream.)
2. What size gift do you intend to make? (Charitable remainder trusts should ideally be $250,000 or larger; they are probably ok at $100,000, but smaller amounts indicate a charitable gift annuity.) ____________
3. How much income are you interested in? (Gift annuity payments are generally higher than trust payments; here're you're looking for expectations.) ________________
4. Is it important that the income amount be fixed (indicating a charitable gift annuity or a charitable remainder annuity trust) or would you be interested in a payment that fluctuates with the value of the contributed property (a charitable remainder unitrust)
5. How often would you like to receive payments – i.e., quarterly, semi-annually, or annually?
6. What asset do you plan to use to fund the gift? __________
7. When would you like to create this gift? ____________
8. Would you like me to prepare illustrations of several options? (Here suggest either a comparison of a gift annuity to a remainder trust, or a trust with varied rates of income, or styles. For example, a 5% charitable remainder vs. a 5% charitable remainder unitrust)

I. Deferred gift questions

1. Are you interested in sample bequest language? Y/N
2. Are you interested in information on how you might make a gift with more tax advantages using your retirement plan? Y/N
3. Will you let us know when you have put these plans in place? Y/N

Other notes:

APPENDIX F
INDIVIDUAL GOAL SETTING WORKSHEET

Setting goals for care of family and distribution of funds is important. Use this chart to list your goals, and indicate the dollar figure required to fund those goals.

Priority	*Goal*	*$$ Required*
	Provide for personal lifestyle.	$
	Provide for family care and lifestyle.	$
	Provide for assets for children. Note: determine if that gift should be outright or in trust.	$
	Provide for assets for grandchildren.	$
	Provide for elderly parents or family.	$
	Provide for family members with disabilities or other special medical needs.	$
	Provide for charities supported during life.	$
	Provide for the U. S. Government's programs and activities through a gift to the Internal Revenue Service.	$
	Other	$
		$
		$
		$
	TOTAL:	