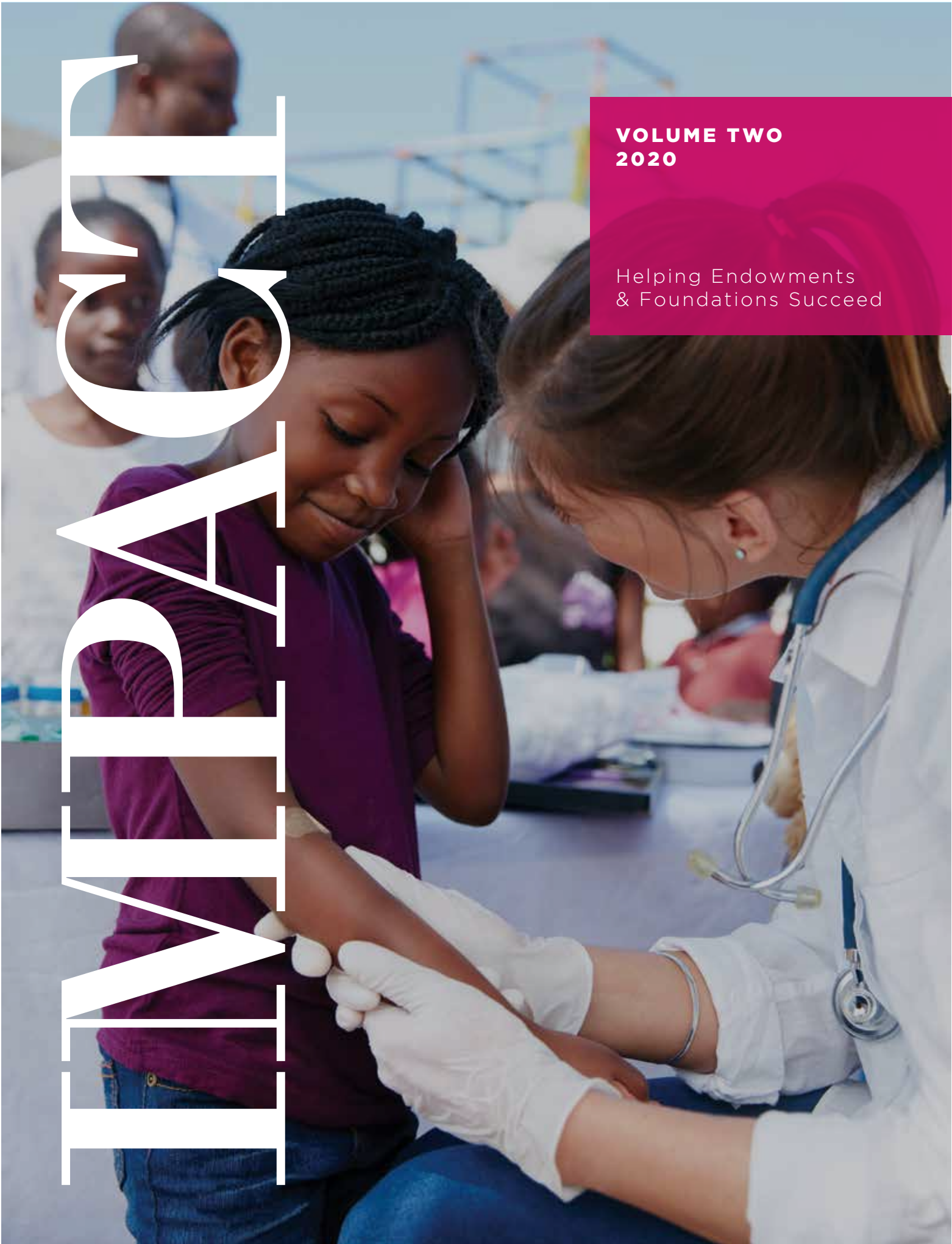


# HELPING PATIENTS

**VOLUME TWO  
2020**

Helping Endowments  
& Foundations Succeed





A photograph of a person with short, light-colored hair, wearing a dark jacket and dark pants, walking up a wooden staircase in a forest. The person is seen from behind, moving away from the camera. The staircase is made of wooden planks and has a wooden handrail on the left side. The forest is dense with trees and foliage, including large green ferns on the right side. Sunlight filters through the trees, creating dappled light on the ground and the person's clothing. The overall atmosphere is peaceful and natural.

Seeing our clients succeed  
is our ultimate goal, and  
providing this resource is just  
one of many ways we help  
them to learn & grow.

**DANA VOSBURGH, CFP**  
**MANAGING DIRECTOR, ADVISORY SERVICES**

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*“It goes without saying that these are not normal times, and non-profits are being asked to answer the call in more ways than ever before. The ask is enormous, but so is the need.”*

Non-profit organizations face unique challenges, and never has this been more evident than this year. It goes without saying that these are not normal times, and non-profits are being asked to answer the call in more ways than ever before. The ask is enormous, but so is the need.

Last year when we launched Impact, our goal was to create a resource that would empower non-profits to make confident financial decisions across their organizations. Managing your finances is about more than just investing your assets, it is also about surrounding you with the tools and expertise your organization needs to succeed.

Seeing our clients succeed is our ultimate goal, and providing this resource is just one of many ways we help clients meet their needs. On behalf of our entire team, we look forward to working with you to help reach your goals.





# LOOKING UNDER THE MICRO-SCOPE

Micro-donations Add Up & Have a  
Macro effect on Fundraising

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## **WE LIVE IN A DIGITAL WORLD.**

As Boomers continue to age and Millennials and Gen Z become more engaged, it is critical that organizations adapt their fundraising techniques to reach a growing audience.

Micro-donations are charitable contributions that are typically less than \$200. The popularity of these donations is climbing due to the fact that it's primarily done on mobile apps, making it quick and easy for donors to participate. Organizations need to understand the who, why, and how behind this new trend in order to effectively incorporate micro-donations into their current fundraising goals.

## **WHO IS MAKING MICRO-DONATIONS?**

Organizations typically target Baby Boomers and the Silent Generation for large donations, but they shouldn't count out what younger generations can contribute. 84% of Millennials reported making donations to a charity or non-profit in 2018, and 93% of Millennials own smart phones.

Micro-donations appeal to this younger demographic because donations are small enough to be affordable and they can be collected via mobile platforms. Many donors are not only giving to existing micro-fundraisers, but also hosting their own.

On Giving Tuesday 2019, over 1.1 million people utilized Facebook to create micro-fundraisers, benefitting more than 97,000 charitable organizations. Facebook matched \$7 million in donations, bringing the total amount raised on the social media platform to \$120 million.

## **WHY ARE MICRO-DONATIONS TAKING OFF?**

Donors can give quickly and easily, without thinking twice about it. The crowdfunding aspect of micro-donations provides a sense of community and ownership.

Donor participation, regardless of the size of the actual donation, allows them to be a part of something bigger. Donors are also better at staying connected socially as a result of technology-enabled micro-donations. The more donors are sharing and "liking" the causes they support, the more visibility the organization gets.

One particular area that reaps significant benefits is disaster relief. Since it is critical that those affected receive funding as soon as possible, the small-yet-quick donations make a timely difference.

## **MICRO-DONATION PLATFORMS MAKE IT EASY.**

These platforms streamline the way people donate to worthy causes. Lower credit card fees and advancements in mobile technology are further increasing donor use of these platforms.

OneRelief is a platform that collects micro-donations for humanitarian relief. Because it is critical that those affected by disasters receive funding as soon as possible, small-yet-quick donations make a timely difference. Donors can use Apple Pay, Google Pay, and PayPal, allowing them to give in less than 20 seconds.

Google One Today is a mobile app where users can donate \$1/day to the organization of their choice. Its "give a little, change a lot" motto encourages donors to make small donations, while challenging their friends to match them. Donors can peruse various campaigns and can see exactly how their contribution will make an impact.

Spotfund is a mobile app that allows donors to give \$1, \$2, or \$3 to support various causes and current events. Much like other social media platforms, Spotfund features a news feed that is updated with current issues in human health and services, animal welfare, and the environment. Donors use a token system within the app to donate and can share on Facebook and Twitter.

## **MICRO-DONATIONS CAN STILL POSE CHALLENGES.**

While micro-fundraisers are praised for being quick and effective, they still pose a number of organizational challenges.



## TIPS FOR STARTING YOUR OWN MICRO-FUNDRAISER

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### **JUMP START YOUR CAMPAIGN**

Apply money from previous campaigns to your new campaign so it doesn't look like you're starting your fundraiser with nothing. This will help donors feel more valuable by playing a role in completing the project.

### **SMALLER IS BETTER**

Keep your goal amount small. Donors feel like they're making more of a difference if they donate \$100 to a \$1,000 goal rather than \$100 towards a \$100,000 goal.

### **TWO ARE BETTER THAN ONE**

Try to run multiple micro-fundraisers at the same time. This will help to generate sustainable income for your organization, rather than relying on sporadic influxes.

Micro-donations are not perfectly effective when time is of the essence. Although the power of crowdfunding enables a large number of donations to be collected within a matter of hours, the bank transfer to the recipient can take days.

Utilizing micro-donations also requires organizations to obtain a very large number of donors in order to generate sufficient funds. It could take thousands of donors to achieve the desired fundraising goal. In this scenario, social media plays a critical role in extending reach beyond close family and friends.

Lastly, more recent humanitarian and natural disaster relief can be overrepresented in comparison to longer-term recovery projects. These longer-term recovery projects often become forgotten as more recent events take precedence, driving an influx of donations to the latest news story.

### **WHAT CAN THIS MEAN FOR YOUR ORGANIZATION?**

These contributions are a way for your organization to tap into a whole new world of giving. They provide more exposure to younger generations, extend reach on a digital level, and allow you to raise funds often only seen from large gifts.

Remember, if you want your micro-fundraiser to be successful, you must make it easy for donors to give. Make sure your platform is user-friendly and ready to accept all forms of mobile payment.

# THE CARES ACT RECAP

On March 27th, Congress passed the Coronavirus Aid, Relief, and Economic Securities (CARES) Act. At \$2 trillion, this act is the largest relief act in history and provides significant financial relief for non-profits. Here's what you should know.

## **PAYCHECK PROTECTION PROGRAM - LESS THAN 500 EMPLOYEES**

The loan can cover up to 2.5 times monthly payroll costs to a maximum of \$10 million for payroll, health insurance, facilities, and debt expenses. This loan is forgivable if all staff is retained for 24 weeks (extended from the original 8) following the start of the loan. The time available to pay off has also been extended to 5 years (in the PPP Flexibility Act). The application deadline (June 30, 2020) has not been extended.

## **ECONOMIC INDUSTRY DISASTER LOAN - PRIVATE NON-PROFITS**

Applicants are eligible for a loan of up to \$2 million. The loan is based on the organization's credit score and also waives a personal guarantee of up to \$200,000. An emergency advance will get the organization a \$10,000 loan in three days. The Small Business Administration is currently only accepting applications to provide relief to agricultural business.

## **PAYROLL TAX EXTENSION - ANY ORGANIZATION**

Organizations can stretch out payments of their share of Social Security payroll tax that is owed to help with employee costs. Half can be deferred by the end of 2021, and the other half by the end of 2022.

## **EDUCATION DOLLARS - EDUCATIONAL INSTITUTIONS**

\$30 billion in emergency education funding is being provided to colleges, universities, states, and school districts.

## **DONOR BENEFITS - ANYONE**

Donors can make an above-the-line deduction for charitable contributions of up to \$300 on their 2020 Federal tax return. For those who itemize, the act increases the normal limit on contributions from 60% to 100% adjusted gross income. For corporations, the adjusted gross income limit increased from 10% to 25%.

# WHAT NON-PROFITS CAN DO WHEN VOLATILITY STRIKES

The spread of COVID-19 has been a catalyst for a major market selloff, shocking many endowments and causing significant market volatility.

From the beginning of 2015 to the end of 2019, the US stock market experienced only two days of price movement above or below 4%. But in the first three months of 2020 alone, there have been 14 such days. It's safe to say that after a long hiatus, volatility is back.

Markets like today can have a significant impact on non-profit finances. The best way to cope with the volatility is by preparing ahead of time by having a solid financial plan, a good grasp on your organization's risk tolerance, and by not panicking. We encourage all non-profits to assess their situations objectively and consider the following:

## **Evaluate Your Cash Needs**

One of the toughest things about volatility is the impact it can have on withdrawals. If your spending rule is based on a percent of market value, any dip in value will mean less money available to support your mission.

If you withdraw a specific dollar amount, your withdrawal level will stay steady no matter what. But the problem is that in doing so, you'll be taking out a larger proportion of your portfolio at the worst possible time. That will make it harder for your portfolio to recover when returns get better.

There's no one-size-fits-all solution to this problem. Each organization must evaluate their short-term cash needs while also not ignoring long-term goals. Is it more important to grow investible assets for future

support, or is it more important to provide support today? What do you estimate you will need over the next 12 to 18 months and how much cash do you have on hand already? Does your charitable constituency have a greater need during times of economic distress?

As a fiduciary, it's your job to strike the right balance between investing and spending. Document the rationale behind your decision and manage the tradeoff between conflicting objectives as best as you can.

## **Look to Your Investment Policy**

Times like today are when documentation comes in handy, especially if there's been significant turnover on your board. A well-written investment policy statement will indicate why your portfolio is invested the way it is, and it should help frame your outlook around volatility.





An investment policy should indicate your organization's investment time horizon (i.e., the length of time over which your portfolio is required to support its mission). The longer the time horizon, the more flexibility you have for waiting out periods of market stress. It should also indicate your portfolio's risk tolerance (i.e., the degree of uncertainty your portfolio can handle regarding a negative change in its value). For non-profits, this is often related to your withdrawal needs, but it can also be related to your organization's mission or the trustees' feelings about risk in general. Are they willing to accept more volatility for the chance of greater long-term reward?

There was a reason your policy was written the way it was. It captures the thinking of your organization's leaders at a specific point in time and provides an outline for how to achieve your long-term goals. That doesn't mean it can't change, but you will have to have a fundamental reason for those

changes. In this way, an investment policy imposes discipline on both trustees and portfolio managers, which is extremely helpful during volatile times.

### **Consider Deploying Assets to Take Advantage of Opportunities**

With volatility comes risk, but also opportunity. As difficult as it may feel, the best time to invest is when prices are down. Acting on this opportunity can be difficult as it is hard to force yourself to save and invest at exactly the same time when things are most scary.

We suggest first reaffirming your organization's investment objectives and utilizing specific target ranges. Targets for stocks, bonds, and other asset classes can help keep your investments in perspective and on track, and ranges provide you the flexibility to adjust your allocation over time rather than always having to adhere to a specific target.

Lastly, and if you can, have a reliable process for using the market selloff to your advantage. At Manning & Napier, our clients delegate this task to us. Our analysts are constantly evaluating stocks, and when a business with good fundamentals trades at a much lower price, we can deploy assets to capitalize on the opportunity. We believe this flexibility is a tremendous long-term value-generating tool for non-profit investors.

### **The Way Forward**

Market volatility returned with a vengeance in the first quarter of 2020. Most non-profits have several built-in advantages, including long-term time horizons, and each organization will need to evaluate their cash needs and risk tolerance to determine the best way forward. At Manning & Napier, we have 50 years of experience helping clients manage this dynamic. We are here to help.



# A WORK IN PROGRESS

Non-profit Leaders Strive  
to Find and Retain the Right Staff  
and Board Members

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We spoke with several members of the non-profit community to get their take on the challenges of finding and retaining staff and board members. Our hope is that you find their insight helpful as you navigate the unique challenges of your own organization.



### **JERILYN J. HICKEY, CRFE**

*Girl Scouts of Western NY*

Jerilyn has over twenty years of experience in the non-profit industry and currently serves as the Chief Development Officer for Girl Scouts of WNY. With a proven track record of growing individual, corporate, and foundation giving, she believes strongly in donor-centered, relationship-based fundraising. She holds an Executive MBA from the University at Buffalo, and recently earned her Certified Fund Raising Executive (CFRE) credential.



### **ADRIENNE SELSOR, CRFE**

*Time, Talent, & Treasure*

Adrienne has twenty years of experience in the philanthropy sector in central Ohio. She has been a corporate funder, non-profit fundraiser, consultant, donor, and board member. Adrienne currently serves as the Founder and President of Time, Talent & Treasure, an organization that provides individuals, companies, and non-profits with the fundraising and leadership development support they need to be successful.



### **SCOTT C. BENJAMIN**

*Charles Settlement House &  
The Community Place of Greater Rochester*

Scott Benjamin has been the CEO of Charles Settlement House for 14 years, and for the past two years, he has been the shared CEO with The Community Place of Greater Rochester. He is active in a variety of human service organizations and collaborations, including Rochester-Monroe County Anti-Poverty Initiative, URM Center Community Health and Prevention, and the Council of Agency Executives.



### **BRANDY JEMCZURA**

*Seeds of Caring*

A trained teacher and social worker, Brandy Jemczura is the Founder and Executive Director of Seeds of Caring, an organization that provides opportunities for kids to engage in service, social action, and community-building. As the mother of three young children, Brandy loves seeing her own kids develop into engaged, empathetic, and kind leaders. She is dedicated to providing the opportunity for all youth in Columbus to do the same.



### What qualities do you look for in potential staff and/or board members?

**Hickey:** Passion for our mission is critical for staff and board members. We look for people who are self-motivated. People who devise a plan and work that plan toward our council's collective strategic goals. They need to be extremely in tune with what the goals are and what their part is in obtaining those goals.

It's important for board members to stay engaged and have a pulse on what is going on in the organization. Both staff and board members also need to follow-up on initiatives and follow through on commitments.

**Selsor:** First and foremost, board and staff must have passion for the mission and work of the non-profit. That passion will enable staff and board members to work hard and ask others to join them.

For boards, I recommend using a skills matrix to help identify and proactively recruit for the specific skills your board is lacking. For example, when all board members complete the matrix, they might realize they have a lot of business members, but no one skilled in fundraising. Or they might learn that no one has experience with the issue they are seeking to address. They can then seek out those skills and experiences in new board members.

For both staff and board members, I also think empathy goes a long way. Both empathy for the people being served, and empathy for the staff doing the work. Never assume you know what is best for someone or that you know what is going on in their world. I never understood how scarce resources were in the non-profit world until I went from the corporate world to the non-profit sector. Non-profit team members are always under tremendous pressure. Board members and leadership team members should reduce that pressure, not add to it.

### Do you set clear goals for staff and board members upon their hire or appointment?

**Benjamin:** We have detailed job descriptions for staff. All our programs have objectives and outcomes that we must meet, particularly for programs that are grant-funded or funded with government contracts. Some of the goals are program-wide, and some are more specific to an individual employee. For board members, we have by-laws and a matrix of expectations. These address participation in board activities and minimum amounts of financial support. The financial support can be provided by the individual or by helping to raise the money from others to benefit the organization.

**Jemczura:** We are setting clear goals before staff and board members are hired or appointed. For our board members, there's a written set of responsibilities. They also go through an orientation where goals are talked about and agreed upon. With our staff members, we take the time to write out and mutually agree on a set of goals, expectations, and metrics that will help measure success. This way, everyone can be aligned in the work and the path forward. It also helps to align personal goals with professional goals. We hold an annual "stay interview" to touch base with our staff. We talk about what's working well, where the gaps are, and what we can do as an organization to make sure the employee feels fulfilled.

**Selsor:** Goals for board and staff should be set based on real information! I've seen so many non-profit teams create goals based on what they want to happen versus what is realistic, and that sets everyone up to fail. When a board sets a budget, it should be based on real financials and data points, not "we need to raise this amount of money and have no idea from where it will come". That happens way too often and is where many leadership teams fail, adding more unnecessary pressure to non-profit associates.

I recommend using a skills matrix to help in identify and proactively recruit for the specific skills your board is lacking.

**Do you believe there is a high turnover rate in the non-profit sector? If so, why do you believe that is?**

**Selsor:** In the fundraising profession there is a high turnover rate in the non-profit sector. The average tenure of a non-profit development team member is about a year and a half. That's not enough time to develop and nurture the relationships the organization needs to be successful. For executive directors, a recent study said the number one reason they are considering leaving their jobs is not the work or the poor pay, but it is the "difficulty with the board of directors."

Non-profits do great work, and there is a lot of intrinsic value in being part of that. But external factors are really tough, all the way down to the employees being governed. Would you sign up for a job with 30 different bosses who may or may not have any experience in the work they are supervising, and they all leave every few years? That's the reality of a non-profit executive director and the board members who supervise them.

If someone needs to have flexible hours or work from home, I work with them individually to make that happen.

I think turnover happens because of:

**1. A lack of alignment** – Disagreements about priorities and resources add stress, and it all comes from the board. The board drives budgets, strategy, and planning. If planning is done poorly, then stressful situations arise. Most board members have good intentions, but often, they have not been trained on how to be an effective board member. A lack of leadership at this level is crippling.

**2. Unrealistic expectations** – If you have never worked in a non-profit, you can't fully understand all the pressures non-profit teams face. Most board members are from corporate America, but the business demands of non-profits are just not the same as corporate America. If a non-profit doesn't reach its budgetary goals, people lose jobs immediately. They often don't have reserves or other ways to level out "bad" years, so it's hard to take

risks. It's hard to reinvest in yourself as companies do. Infrastructure needs often go unattended, and non-profits are always doing more with less.

**3. Too little training and development** – Most non-profit professionals, especially fundraisers, fell into their positions. Too often there is no one in the organization to train or mentor them. It's a very sink-or-swim industry that makes difficult jobs even harder. Non-profits don't invest in career coaches or training as much as they should, and external-facing roles can be exhausting and lonely. Everything must be great all the time to ensure public trust, and we all know that's not realistic.

The non-profit sector also doesn't do a good job of internal succession planning and proactively building skillsets of their associates. Unfortunately, board and leadership often hire externally, which tends to be more disruptive than promoting from within.

**4. Poor compensation** – I don't think pay is the biggest driver of turnover, but it must be mentioned as well. No one works at a non-profit to get rich, but eventually, I think the lack of compensation and benefits, along with constant stress, can be the final straw that justifies leaving a non-profit position.

**What are you currently doing to incentivize staff to stay with your organization?**

**Benjamin:** We have been incentivizing staff by working to increase salaries and pay a higher percentage of health insurance costs. Human service workers, particularly at the line level, are traditionally paid less than counterparts in for-profit businesses. In this environment, it's important to listen to workers. We believe in helping people receive training for professional development they need to advance and to be engaged in their work.

**Hickey:** I incentivize my staff by working very hard to make sure each individual member of my team has what they need to succeed. If someone needs to have flexible hours or work from home, I work with them individually to make that happen. I also work with each staff member to find out what continuing education they need. We have check-ins to talk about where they see themselves in 3 years, 5 years, etc. I ask them what their dreams are and how can I help them get there. It's important to give staff the time, resources, and support to grow within the organization.

**How would you describe your organization's culture?**

**Jemzcara:** I would describe our culture as a collaborative, mission-driven culture. At Seeds of Caring, we practice every voice belonging at the table- from staff to board members to volunteers- and we remain very connected to our mission. Our volunteers are incredibly dedicated, and believe fully in the impact we're having in our community. Our team possesses a "can do" attitude, seeing every challenge as an opportunity, and striving to continually increase our impact. Our volunteers are amazing. They basically run our programs day-to-day. They are representing us in a very professional way throughout the community. If I could sum it up, I would say that we attract and retain big-hearted, intelligent, driven, and dedicated people. Everyone is grateful for the role other team members play in the work we are doing because together, we have been able to build this organization over a short amount of time.

**Hickey:** We are a family first organization, and this comes from the top-down. Those with flexibility and support in the workplace will be wonderful employees. We make space so employees can do what they need to for their families without fear of repercussion.

Beginning this year, a staff representative is now able to attend leadership meetings so they can voice concerns and share ideas. As a result, we are building out staff-led committees based on what initiatives they want to work on. Some of these initiatives include health in the workplace and diversity and inclusion in the workplace. Our staff is excited they have a voice and can get involved around what they are passionate about.

**Are there opportunities for growth within your organization? How does funding or lack thereof affect those opportunities?**

**Benjamin:** There are opportunities to move up in our organization within departments or to cross into other programs. Still, because we are small, sometimes there's aren't enough opportunities for advancement. People sometimes leave for promotions at other human service providers, and then return with more experience when better positions open up. Funding impacts the ability of people to advance because few of our programs come with cost-of-living increases on a regular basis.

Our volunteers are amazing. They basically run our programs day-to-day.

**Hickey:** Yes, there are opportunities for growth within our organization. We see this in two ways. The first is through natural leadership. I strive to understand how employees want to build their career through title and responsibility advancement within our organization. The second is how the individual wants to grow within the current position. I ask: "Is this a direction you want to go in? If so, let's add that into your work." That way, they can grow based on their individual strengths. I'll evaluate what their new tasks are and cut back on other things they may have been doing previously, so that I'm not just increasing a workload. As I do the budget for the year, I have to weigh what everyone wants to do. We are fortunate to have commitment from the top-down on continuing education, so everyone can go to at least one conference and local continuing education events. We also pay for every employee to have a membership to AFP (the Association of Fundraising Professionals).



**What do you see as the biggest challenge when it comes to finding staff and board members?**

**Jemzcura:** At Seeds of Caring, because we are still a young, evolving non-profit, the biggest challenge we have is the wages we can offer. We can't compete with larger, more established non-profits when it comes to compensation. Additionally, at this time, we are unable to offer benefits to our employees. Because of this, we look for staff that is very connected to our mission so that the compensation doesn't weigh as heavily on them. Another challenge we face is that, in general, you do see a lot of turnover in the non-profit world. You can work hard to recruit and hire the right person, but sometimes there are factors out of our control that make it hard to retain them. On the flip side, since we are a newer organization, we have the advantage of being able to offer an exciting and growing work environment where people can jump in and be a part of building the organization from the ground up.

**Selsor:** The biggest challenge when it comes to finding the right board and staff is taking the time to do it right, as opposed to just being happy to have a person. This means making sure they select the right members, board and staff, in the recruitment phase, as well as training them correctly with onboarding. Board members are volunteers, so they want to be helpful, but if they aren't given the right training and onboarding, everyone gets frustrated.

Non-profits also need to do a better job at the departure points of staff and board members. Non-profits are not quick to remove board and staff members who have become difficult to work with.

**Do you have an associate board? If so, what expectations do you set for its members?**

**Benjamin:** We do not have an associate board, although it is something we are considering. Some of our board committees allow for non-board member participation, which can create a feeder system to board membership or an opportunity to volunteer for specific projects without the commitment that would be required for board membership.

**What skills do you value the most in members of your staff and board?**

**Jemzcura:** When seeking the right fit in staff and board members, we look for someone who fits our culture and demonstrates dedication, integrity, innovation, and the ability to collaborate as a team. When we are hiring, we use our team of staff, board members, and volunteers to recruit other likeminded individuals who are motivated behind the purpose of our work. Passion for our mission is critical in any position.

**Selsor:** For me, I value the people who don't complain; they step up to do the work and are good team players. They call and ask how to be helpful and do what is helpful. They stop unproductive talk and gossip. They give people the benefit of the doubt and work hard, and above all, are trustworthy and honest.



# WHEN IS THE RIGHT TIME TO START AN ENDOWMENT FUND?

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Creating an Endowment & Foundation investment fund can be confusing. There's a lot of decisions to make, and it can be difficult to know when the timing is best for your organization. Below, we've outlined our answers to some frequently asked questions about the establishment of endowment funds.

## **WHAT IS AN ENDOWMENT FUND & WHY HAVE ONE?**

An endowment fund, also called an operating foundation, is an investment vehicle that a non-profit establishes to accept and hold various charitable donations. These assets can be unrestricted, meaning the non-profit decides what to do with proceeds from the investments, or they can be restricted (i.e., endowed), where the investments are earmarked for a specific purpose as dictated by the donor.

That's the technical definition, but what are these funds really designed to do? Fundamentally, an endowment is the long-term anchor of a non-profit organization. It can be a consistent source of funding that, when managed effectively, can help an organization stay on solid financial footing across different types of environments.

In some ways, this type of account is analogous to retirement savings for an individual. Social security and a part-time job are good to have, but if you really want to feel financially secure in retirement, it helps to have a big pool of long-term, tax-advantaged savings to meet your expenses and provide sustainable support.

## **IS NOW THE RIGHT TIME?**

Many organizations face a 'chicken or the egg' conundrum when it comes to starting an endowment or foundation. Donors want to see a commitment to permanence, but sometimes it's hard to show that commitment without having assets already in place. Therefore, it's important to ensure that your mission has been clearly defined and been in place for some time. Your donors will have greater confidence in your organization if they understand your mission and if it has been supporting the community for years. Confidence is the key element here. For your donors to have trust in your cause, they want to feel a sense of permanence. In other words, they want to know that their donation will be put to good use, even if it's invested for the long-term.

One way to test if your organization is ready to start an endowment is to slowly set aside excess from operations over time. Establishing a cash reserve is a good starting point. Once that reaches a critical mass, the excess can be slowly invested into a long-term portfolio. Even small amounts saved over time can be enough to get started. If your budget can swing it, it's a good indication you might be ready to start asking donors to contribute too.





From a leadership standpoint, those interested in your cause want to see a management team that has proven to be successful and sustainable. A group of individuals that have been providing guidance for several years shows personal investment in the mission. Strong leaders foster a positive work environment, which typically creates an impactful group of individuals supporting these leaders.

Potential donors are more likely to put their faith and donations into an endowment if the leadership team and support staff are deeply involved, consistent and successful. If your non-profit has been around for some time, let your donors know this. Be proud of the reputation you've developed and don't be afraid to showcase this. From a marketing standpoint, present your organization as one that is successful, longstanding, and important to the community.

#### **HOW DO WE START ONE?**

There are several steps you should take to establish your endowment. We've organized them into three main categories:

#### **GOVERNANCE & LEGAL STRUCTURE**

Endowments/foundations are generally organized as tax-exempt entities under section 501(c)(3) of the IRS code. They can be incorporated under the provisions of the state in which they reside, or they can be set up as trusts. Under either approach, the proper filing requirements must be met. It's important to obtain legal counsel to ensure compliance with all necessary federal and state requirements. An attorney that is knowledgeable in charitable, tax-exempt law can advise in this area.

There will also be governance considerations. For example, most endowments are setup as separate entities from the non-profit they support, paying formal grants to the non-profit. This structure requires a separate board of directors, officers, mission statement, and internal policies (e.g., spending, fundraising, mission statement, etc.). In our experience, the most common practice is a volunteer board made up of community leaders or affiliated personnel, and a professional executive director whose role is to run the endowment's day-to-day administration, oversee fundraising efforts, and coordinate oversight with the board of directors.

## FUNDING

There is no minimum amount of assets required to start an endowment. As mentioned before, a non-profit will sometimes seed an endowment with excess cash from its operations or fundraising. This is a good starting point, but to really make a difference, it's crucial that you involve your community of supporters.

Every organization will be different in this regard. Some will choose to focus on a small pool of affluent, long-time donors who may be interested in making a major gift or bequest. An endowment is a great place to house such a gift because of its alignment with a donor's idea of leaving a legacy.

For example, suppose you have identified a consistent annual giver who has made a conscious decision to support your cause over many years. Clearly, providing sustainable support is important to them. This person can be an excellent candidate for an endowed gift because an endowment allows them to continue to make a regular, annual impact for years to come, even after they've passed away. They want that gift to continue, and your organization can help them accomplish that goal.

Other organizations will decide to create a kick-off campaign focused on a larger pool of donors. In this case, it's important to turn your campaign into an event. Create a case for support, set a goal, and broadcast your message widely: "We're starting an endowment! Help us create a sustainable future for our organization."

All of this supposes you have a large base of already existing supporters. Not all do, but with careful cultivation and solicitation, many organizations can transform their constituency (e.g., alumni, family, friends, or anyone receiving your services) into a base of long-term support. Establish an infrastructure, including a fundraising database, a giving section of your website, and communication tools (e.g., email, mailings, etc.) to spread your organization's message.

## INVESTMENT

The final step is to ensure your endowment's assets are properly invested for the long-term. Setting investment objectives means prioritization. Is it more important to grow a foundation's assets or preserve what it already has in order to safeguard future withdrawals?

For most, the answer lies somewhere in the middle. A typical endowment intended to last in perpetuity must balance both growth and preservation. This prioritization then feeds into a portfolio's asset allocation. For example, stocks can be excellent for growing capital over the long-term, while bonds are generally better suited for preservation. Work with an advisor who has the skills, tools, and expertise to create a portfolio specifically customized to your endowments needs. Then, write down those policies to convey and clarify the intention with a formal spending rule and statement of investment objectives.

And finally, know that board members and other leaders are fiduciaries when it comes to managing these assets. This means the interest of the organization must be put ahead of personal interests. It also means the portfolio must be regularly monitored and maintained over time to keep the endowment on track to reach its goals.

Funding consistently ranks as a top challenge for non-profits, especially in today's changing landscape of government support, tax rules, and uncertain economy. If your organization has gained donors' trust by demonstrating its commitment and value to the community, it's time to consider starting an endowment. We are here to help navigate this process.

Source: WIPFLI, LLP.



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This publication was published in June 2020 and all information within is as of that date unless otherwise noted.

Page 8: The US Stock market is represented by the S&P 500 Total Return Index.

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