BUILDING PERMANENT FUNDS AND STRONGER COMMUNITIES: EIGHT STEPS TO SUCCESS

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Eight Steps to Success

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Building Permanent Funds and Stronger Communities: Eight Steps to Success

Community foundations serve an increasingly important role in the communities they serve. They serve as the voice of philanthropy, the philanthropic leaders, and the community's endowment. To be effective, those foundations need permanent funds to initiate projects and to sustain those initiatives over time. This session focuses on how to engage donors in building permanent funds at the foundation.

I. The Role of Community Foundations in Building Stronger Communities: Trends Across the County

A. The Traditional Community Foundation Role: Responsive to Donors

The role of community foundations has changed dramatically since Frederick Goff established the first community foundation in Cleveland in 1914. The goal of that first "community trust" was to create a single pool of permanent endowment to provide a better quality of life for the citizens of Cleveland. In 2014, 1,843 place-based foundations were identified around the work with combined grant making of over $5 billion and assets of $63.2 billion.[1] 73% of these foundations were created within the last 25 years.[2] Approximately 780 of these community foundations are in the United States; this figure has more than doubled over the last 20 years, making community foundations the fastest growing area of philanthropy. The traditional role of these foundations could be described as follows:

1. *The foundation is there to serve donors.* This means the foundation serves a responsive role to meet the needs of donors in philanthropy, however the donor describes those goals. In some cases, that might be an administrative, grants platform. In other cases, it serves as a public charity with the flexibility to accept all types of assets with the the most positive tax results. Still others served to safeguard donor gifts to other organizations.

2. *The foundation offers a platform for any area of philanthropy in which donors set priorities.* Donor choice is a recurring community foundation theme. The foundation offers a platform for all charitable sectors, not just those limited to one or few charitable sectors such as health, education, or welfare. Donors with environmental goals are equally welcome with those with arts goals. The foundation provides a platform for all donors.

3. *Generally, the largest donor engagement team is focused on donor services for those donors who are already "inside" the foundation; far fewer resources are dedicated to engaging new donors (the traditional development function).* This is because the foundation viewed itself as a resource for donors. They were intentionally avoiding seeking out new donors and potentially competing with other fundraising charities in the community. Not only did they not actively recruit donors to make additional gifts; they made it clear publicly that they did not solicit donors for additional gifts.

4. *Advisors refer the majority of donors.* In this environment, the outreach was primarily (in some cases, exclusively) to professional advisors who were the primary referrers to the foundation. The foundation was positioned with advisors as a flexible platform for planning, a method of ensuring accountability - again, responsive to the needs of the advisors in structuring their donors' philanthropic plans.

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[1] http://communityfoundationatlas.org/facts/#regional-variations.

[2] *Id.*

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B. The Emerging Community Foundation Role: Partnering with Donors to Transform Communities

Over the past several decades, community foundations have strengthened their contributions to communities by assuming a greater community leadership role. This approach can be defined as follows:

1. Community foundations are stepping in to take a role in identifying critical needs. This might be from conducting community surveys to identify needs, drilling down to specific variations on that need in the communities they serve. For example, a survey of the elderly over a five county area might show a range of needs that vary from rural to city communities, or by age skew, or by availability and access to services. This role is a natural one for community foundations that may see hundreds of grant solicitations in a single year that help frame the most urgent needs and conditions in the community. This is an increasingly important role as government funds are fading, private foundation grants are decreasing, and the number of nonprofits is increasing.

2. Initiatives follow identification of needs. Initiatives are grant making activities that go deep and are designed to continue for multiple years. Initiatives go to the sources of identified problems to reduce the need rather than to remediation of the needs that continue because the causes have not been addressed.

3. *Community foundations are serving a leadership role.* Some community foundations serve as the voice of change and lead change in communities. The foundation might step forward and take the lead in an issue such a violent crime, or parks initiatives, or consolidation of governments.

4. *Community foundations are serving a collaborative role in bringing other funders and community organizations together.* For example, the foundation can bring various funders together to focus on solving a single problem. One example is the three parks initiative in Birmingham. Three separate organizations were launching capital campaigns to expand green space in the community; the community foundation brought them together into one campaign, engaged other foundations and donors in the community to contribute to the joint campaign, and in that way not only raised visibility, but leveraged the common purpose. Other examples across the country involve education, violent crime reductions, and arts organizations.

5. *Community foundations are focusing on engaging donors are partners.* Rather than community foundation initiatives in which the community foundation takes on solutions on a solo basis, the new model looks at donors as partners in community projects. This gives donors a voice, and leverages their dollars which are combined with the foundation's dollars as well as other donors.

6. *Community foundations still offer donor services and still provide a platform for donors priorities.* Focusing on leadership, collaboration, and partnerships does not prohibit the foundation from continuing to offer donors services such as donor advised funds or designated funds. These services are still available to donors. Rather, the focus moving forward is more proactive than simply a reactive donors services

C. More Focus on Building Permanent Funds

Gifts to donor advised funds, which have driven community foundation contributions historically, are pass through funds as well as donor-directed funds. As the foundation's emphasis changes from serving as a donor services platform to a philanthropic leader in addressing community needs, the

emphasis on creating permanent funds has increased dramatically because the foundation needs permanent funds to ensure adequate resources to sustain change.

D. More Focus on Collaboration and Quiet Community Leadership

In this model, the foundation does not work alone but leverages its resources by bringing others to the table to solve problems that affect the community. The foundation serves as a catalyst to convene community leadership, not only in the nonprofit community but the political, corporate, and donor communities, even if those entities/individuals do not have funds at the foundation. The foundation may provide seed funding, but wants others to own and be invested in the outcomes. The foundation is not interested in "credit" and allows others to serve as the face of the work, with the foundation as a partner. This approach creates a sustainable, transformational model for community change.

II. The Role of Permanent Funds

A. What Is a Community Foundation Endowment - and What Do We Call it?

1. An Overview

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.

One of the difficulties in discussing and marketing endowment is that each individual and charity - and each community foundation - defines the concept in its own way. 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 Definition

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.[3]
>
> **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.[4]
>
> **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

[3] http://legal-dictionary.thefreedictionary.com/Endowments.

[4] http://legal.laborlawtalk.com/endowment.

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nonprofits holding long-term funds, generally referred to as supporting organizations to the charity.[5]

Here's a description more easily understood:

Endowment: A pool of funds held by a nonprofit organization which the donor or the board has directed be held intact and invested for long-term growth, the earnings of which are used to advance the organization's charitable mission.[6]

3. Permanent Funds or Endowment?

While community foundations are frequently described as "the community's endowment," there are still many donors who push back on the word. The negative context likely comes from several perspectives:

- The desire to have an immediate impact on the community. Donors who push back the most on endowment feel there are immediate needs to be addressed, and an endowment represents a big pool of unspent funds that could solve today's problems.
- The large endowments held by institutions of higher education and large private foundations with billions of dollars - these pools look obscenely large to donors (and to Congress!) and make the charities appear as if they are hoarding funds.
- The feeling that they (the donor) can do a better job investing the funds than the charity. These donors believe it is best to give the earnings to the charity rather than the underlying assets.

B. Types of Community Foundation Endowment and the Case for Creation

Any type of community foundation fund can be endowed. The important focus for community foundations is to articulate WHY endowing the fund impacts long-term results, HOW the endowment is managed, and the WAY endowment achieves the donor's goal for charitable impact.

1. Donor Advised Funds

Many community foundations are comprised largely of donor advised funds which constantly change in size and value and offer little support for the foundation's larger grant making objectives. Some donors, however, are willing to endow donors advised funds especially where they can see the purpose. Indeed, there are a few community foundations that only allow donors to create endowed donor advised funds, sending those who want transactional accounts to Fidelity or other transactional platforms.

The case to donors for creating endowed donor advised funds include the following:

- The community foundation offers a donor leverage through its knowledge of the community and its ongoing grant making. Donors who have strong interests in specific areas - such as education, or homelessness, or economic development - can partner with the foundation to make grants (and have an impact) not possible through writing individual checks.

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[5] Investorwords.com, www.investorwords.com/1707/endowment.html.

[6] This is my personal definition of endowment.

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- The community foundation offers a learning platform, not only for the original donors but for the generations who follow.

- The foundation offers a platform to create a family giving entity that does not have the cost and management challenges of a private foundation or supporting organization.

2. Private Foundation Conversions

Private foundation conversions operate much like donor advised funds in that the family (or former board) serve as advisors on the distributions. It is a much easier case to make, however, because most private foundations are created as perpetual entities and represent a type of endowment. There are number of reasons a private foundation conversion would be attractive to donors:

- Using a community foundation platform rather than a private foundation platform reduces costs. A separate tax return is no longer required; legal review of grants and expenses is reduced (because community foundation is not subject to the prohibited transaction rules),

- Distributions become more flexible, because community foundations are not required to distribute 5% a year.

- The paperwork for administrative management is eliminated - the community foundation takes on this role - and the family can focus on the element they like the most, which is the grant making.

- The program staff add value and leverage for grantmaking. Program staff can guide the converted private foundation in proposal review, site visits, and follow up.

Not every family with a private foundation is ready to convert for one single reason: control. Private foundations are generally created to ensure absolute control over decisions about distributions, and decisions about administrative management (who invests the funds, who keeps the books, and who is used for legal counsel). Many times, the founding generation will hold onto the funds until they are ready to turn over control.

3. Designated Funds

Designated funds are those funds designated for specific charities and are almost always created as permanent, endowed funds. Community foundations offer the perfect platform for donors who want to create ongoing revenue streams for their favorite charities because:

- The foundation can accommodate one designated charity or multiple charities. For example, Lucille Beeson created a trust for thirteen charities (with a corpus of $165 million).

- The community foundation has the ability to provide oversight of investment of the funds in a professional way that the benefiting charities may not be able to duplicate.

- The foundation has *cy pres* power, and the ability to replace or substitute charities in the event the charity goes out of business, or fails in executing its mission.

- The foundation offers accountability. If the donor provides specific directives on use of funds, the foundation is there to ensure those wishes are carried out.

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- The funds are protected in the event the charity has financial or legal issues that may throw the charity into bankruptcy.

4. Agency Endowments

Many community foundations serve as an endowment platform for nonprofit endowments as a way of building strength in the nonprofit community. These foundations not only serve as a platform - managing the investments, administration, accounting, and reporting - they also provide those organizations help in engaging their donors in making endowment gifts, talking to donors about the impact of those gifts, and positioning the case and opportunity in front of their donors.

Other community foundations will accommodate agency endowments but do not actively recruit them. This is generally because it often requires more staff time from a management perspective because the foundation often is the gift planner, board coach, gift acceptance expert, and defender of use of assets. The defender role can create conflicts when a nonprofit board wants to pull the funds or spend them down (when a prior board has created an agreement that does not allow that).

Community foundations are an attractive platform for nonprofit endowments because:

- The foundation inspires confidence in donors that the funds will be managed wisely and there will be high accountability. This is especially important for smaller nonprofits, new nonprofits, or those that have encountered financial problems in the past.

- The foundation handles the most difficult, time-consuming aspects of endowment management. They manage the investments, handle gift acceptance, do the accounting, handle the reporting. This leaves the nonprofits with the donor management and donor conversations. It encourages them to be in relationship with donors. It eliminates the excuses smaller nonprofits that cause them not to pursue endowment.

- The foundation provides guidance and support for more difficult donor conversations and gift planning. Many of these nonprofits cannot afford the expertise and cost of a planned giving officer and can use the foundation's expertise when these needs arise.

5. Field of Interest Funds

Field of interest funds are one of the most effective ways for community foundations to build endowed funds at the same time they engage new donors in the community. Field of interest funds - whether they focus on women, or the environment, or green space, or early childhood education - serve as a way to clearly telegraph a foundation's initiatives and roles in the community, advocate for support of those initiatives, and attract donors to the table who have a passion for that issue.

For example, at the Community Foundation of Greater Birmingham, we embarked last year, on an initiative to study and identify the key issues in aging in the community with in-depth research to define the greatest needs. This year the goal is to begin to formulate short-term and long-term solutions for those needs. At the same time, we will be going to the community to build an endowment in the $3 to $5 million range that will fund ongoing support of this initiative so that we can have a deep, sustained impact on the underlying issues that generate the needs we see. Once we can clearly communicate what we learned and build excitement about addressing and working to solve the biggest issues, we will be able to recruit donors who share a common passion and goal of addressing the issues on a long-term basis. Some of these donors will come from within the foundation donor community - and hopefully will commit additional funds - while others will be new to the foundation.

A field of interest endowment will have appeal to donors because:

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- The foundation creates a strong, reasoned, solution to an issue the donor is passionate about and adds considerable value through its knowledge of the community held by the program staff, and prior experience in grant making in the area.

- Donors know that systemic and deeply rooted problems cannot be solve in a single year, with a single grant, regardless of the size of the grant. The problem usually has many complex origins. The endowment allows the foundation to invest steadily - over a multi-year period - in solutions, and to identify and address new issues that arise in the course of the work.

- A field of interest fund creates a collaborative community of investors. Not only can the group meet others with a similar passion, but they learn and are motivated by the group.

- The group provides leverage. Donors working with other donors in a field of interest fund are able to leverage not only the expertise of each other, but also the program safe, and to dig deeper and hit problems harder because of the strength of the group.

6. Unrestricted Funds

Unrestricted endowment funds are the holy grail - the ultimate goal - of the endowment efforts. The reason is simple. Unrestricted funds allow the foundation the greatest discretion in use of the fund. The foundation controls decisions about how the funds are spent - not the donor who has restricted the use of the funds or might still have an advisory voice in use of the funds.

Unrestricted funds are the most difficult to raise, primarily because foundations push this option so hard because it is what they (the foundation) want rather than focusing on the donor's perspective. So the key to success in raising endowed funds is to appeal to the donor on a level that focuses on the donor - not the foundation. For example:

- Unrestricted endowment gifts maximize the value and impact of the gift because the community foundation's board will allocate those funds to the community's greatest needs. The needs that are the most important today may not be the needs of tomorrow.

- Gifts are leveraged by the foundation's program staff and knowledge of the community.

- Your gifts are combined with other gifts to expand the impact.

It is important to note that the most effective way to build permanent funds on a consistent, long-term basis is through planned gifts. The community foundation must talk with its donors who have first hand experience with the foundation's knowledge and process about having a long-term impact on the community by making a gift to the foundation through their estate. Professional advisors are another important audience and the source of the majority of deferred gifts for foundations. These advisors need to understand the foundation's flexible platform, its accountability, and its professionalism in managing long-term funds. If the foundation does not have an active planned giving program and voice, it is missing the greatest opportunity to build unrestricted endowment funds.

7. Supporting Organizations

Supporting organizations are separate charitable entities that support one or more charitable entities. When supporting organizations support a university or hospital, the grant making range is restricted to higher education or healthcare (respectively). When a supporting organization supports a

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community foundation, the range of grant making expands dramatically. In order to qualify as a supporting organization, the supporting organization's board must have a clear nexus/element of control by the supported organization either as a Type I (parent/child), Type II (brother/sister), or Type III (series of tests for control).

Community foundations can make a strong case to supporting organizations for connection

- Community foundations can handle the difficult administrative and tax filing for the supporting organization, leaving the family to make decisions about grant making.
- Supporting organizations have access to the foundation's investment expertise in management of the funds.
- Supporting organizations have access to the community foundation's program staff and their grant making expertise.
- The foundation staff can facilitate meetings, help founders engage lower generations, take lower generations on site visits, and provide other similar deepening of knowledge of the nonprofit community and grantmaking.

C. Types of Donors

Community foundations have a wide audience in terms of prospective donors. In fact, almost everyone you meet is a prospect. Each foundation will have a unique set of connections, initiatives, and expertise that drive the focus on prospecting and donor engagement. Consider the opportunities you may have.

1. Nonprofit Agencies

Nonprofit agencies are prospects for agency endowments. There are thousands of nonprofits around you, and the foundation has connections with hundreds (perhaps thousands) of nonprofits it has funded. The most likely prospects are generally:

- Smaller nonprofits who do not have the expertise on staff to accept and manage endowed gifts, or are so small donors may fear the organization will be tempted to spend down the endowment.
- New nonprofits that have not yet made the case with donors that the organization will be there long-term. I use ten years of operation and growth as a benchmark for charities in terms of when the time is right to begin to build endowment.
- Nonprofits who have struggled financially and need discipline around building endowment.

2. Individuals

Individuals represent the largest potential pool of prospects because they make 80% of gifts each year. The foundation's platform allows every donor to participate regardless of age, charitable interest, or financial depth. For example, donors with limited resources can make a significant impact on their communities during life by contributing to established funds or through their estates by making a gift that may be a stand alone or an addition to existing fund. If they are breathing, they are a prospect!

3. Corporations

Corporations are not often cultivated as an endowment prospect for the foundation but there are at least two instances in which corporations may be a solid fit.

- First, the foundation can serve as a platform for the corporation's charitable giving program. The corporation can fund its giving in "good" years and steadily build giving capacity that eventually does not have to be funded with corporate dollars.

- Second, corporations that were established in the community and drew their success from the community can establish a fund as a part of a transaction in which the company is acquired by another company that may be headquartered in another city. This is the positive version of a "poison pill." While poison pills are largely defenses against acquisition, this is simply a prerequisite to any buyout. This "buy out" fund can be the corporation's way of giving back and continuing its impact on the community, softening the loss of the headquarters. Conversations with corporations headquartered in your region need to occur well in advance of any announced merger since by the time the merger has been announced, the deal is done and simply waiting for approval.

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4. Foundations

There are several types of foundations - many mentioned earlier - that represent prospects for community foundation endowment. This includes private foundations, supporting organizations, wholly charitable trusts (in foundation form), and corporate foundations.

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 6 summarizes this model which focuses on the role of increasing engagement by your charity, and the increasing commitment on the part of the donor.

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

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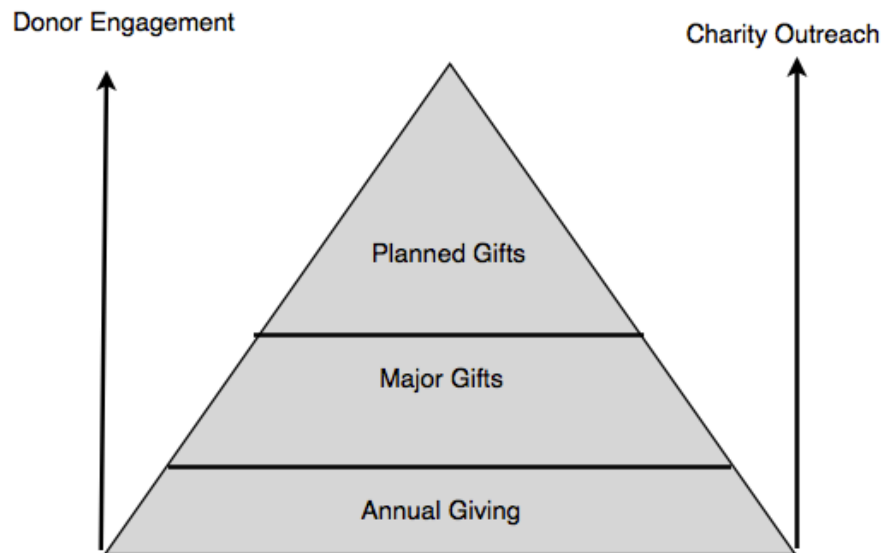
TABLE 1
TRADITIONAL DONOR PYRAMID



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.

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- **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.

III. Step One: Making the Case

A. The Internal Case - Why Endowment Is Important for the Future of the Foundation

You will need to make the internal case to your board and staff to help them understand the role and impact of endowment on the foundation's ability to achieve its 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.

When board members object to endowment, there are generally common reasons. The most common objections held by board members include the following:

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TABLE 2
THE SIX GREATEST BOARD CONCERNS ABOUT ENDOWMENT

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 endowment 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 endowment program? You've told us these Legacy gifts will not be realized for many years.	Investing in 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 - Why Donors Should Invest in the Community's Future

The most difficult initial hurdle is the case statement for long-term investment. It may be easy to attract donors to a donor advised fund platform that has current income tax advantages for the donor, and allows the donor great flexibility in the timing of the distribution of funds. Making a case for endowing the donor advised fund, however, is a different case. It is easy to understand why the foundation wants the donor advised fund - or any fund - to be endowed: the foundation will be able to generate a predictable stream of revenue. But what is the advantage to the donor in endowing the donor advised fund? The case for endowment for each type of fund was spelled out earlier in these materials, but is emphasized here because this case can be easily lost or hidden in the quest to gather assets. Make sure staff and board understand the case for endowed assets and are comfortable sharing the case with donors.

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IV. Step Two: Building a Strong Infrastructure

Not all community foundations are ready to actively pursue endowment assets. In addition to a clear case for long-term investment, here are the essential platform elements required for success.

A. Create a Structure that Makes It Easy for Donors to Participate

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.

1. Create Giving Options at All Levels

Many foundations focus on fund minimums that may require $10,000 or even $25,000 to participate. Make sure your foundation offers ways to participate through existing funds that do not require minimum investments. It is always important to have minimum fund requirements (and stick with them) for new funds. Open endowment to all donors by reminding them they can partner with the foundation and other donors by contributing to existing unrestricted, field of interest, designated funds, or agency endowments at the foundation. This opens the doors to all donors and removes hurdles. When "minimum" is the only word the donor hears, it positions the foundation as available only to the wealthy in the community.

2. Have Clear 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. Community Visibility

The community must know the community foundation exists, and understand its role. Community foundations - especially those that are new - may need to establish a presence before actively attempting to build endowment. This takes time, and an intentional positioning of the foundation in the community.

C. An Active Marketing Strategy

Closely related to visibility is an active marketing strategy.

- Begin by determining the key messages both to communicate the role of the foundation, and make the case for using the foundation to hold permanent funds.
- Create multi-faceted strategies to drive the messages into the community. This includes strategies for the foundation's digital platform, community presence, advisor community, and donors.
- Set goals for the marketing strategies and put measures in place to assess their value. Is the goal to increase traffic to the foundation's website, develop new donors, increase calls from professional advisors, or simply to increase endowed funds under

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management? Each foundation's measures may be different depending upon strategies.

- Look at marketing as a long game - not a one-time effort.

D. Clear Policies and Structure

The foundation needs policies on minimums, fees, reporting, and services provided for each type of fund. These may vary depending upon the type of fund created. Supporting organizations and converted private foundations that require extensive use of program staff or administrative services may require a higher fee structure than funds with more straightforward administrative requirements such as designated funds or contributions to unrestricted funds. Community foundations that encourage agency endowments may have reduced fees for such funds, while community foundations that do not make those a priority (but will accommodate agency endowments) may impose fees that reflect the additional time required to serve as the agency's development staff and report to its donors.

E. Excellent Donor Data

It is difficult to develop endowed funds without excellent donor data and the ability to track interests. The most logical prospects are current donors. The more you know about those donors, their interests, and the most important elements of their foundation relationship the more likely you are to engage them in using the foundation for their long-term gifts. Comprehensive donor data allows the foundation staff to be more intentional in their conversations with these donors and to align donor interests with foundation priorities.

F. Relationship-Oriented Gift Officers

The foundation's gift officers will be effective in building the relationships with donors and prospects that generate endowed gifts if they are donor-centric as opposed to organization-centric. Further, they must be outwardly focused in engaging donors as opposed to simply waiting for donors to call.

G. A Priority on Stewardship

Community foundations that are most effective in building permanent assets are those that place a high priority on donor stewardship. A stewardship-oriented foundation reports to donors on the impact of their gifts, thanks its donors for investing in the community, and positions donors as critical partners in the foundation's success.

H. Strong Program Success/Successful Initiatives that Provide Context

One of the strongest magnets for new endowed funds is a track record of success and innovation for current funds. Once the foundation has demonstrable evidence of the impact leverage of successfully designed and executed program initiatives, it is easier to showcase that value for prospective donors.

I. Collaborative Staff

The most effective and dynamic community foundations are those with collaborative staffs who realize that each staff member comes in contact with prospective community investors. These meetings may occur in the community when gathering individuals with like interests to solve a specific issue, or on site visits, or at events. Banish the silos and spend time sharing what you do with others in the foundation. Learn to listen to the community and connect them with staff if they have an interest in learning more and partnering with the foundation.

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J. Excellent Financial Management

Sophisticated donors ask sophisticated questions about how the foundation budgets projects, initiatives, and administrative expenses. They want to understand more about oversight and whether the foundation has an independent audit committee. They may want to understand salaries and com parables to other foundations. They may have questions about the size of the staff. Be prepared to answer these questions. Connect them with the Foundation's CFO if you do not have answers to questions. And refer donors to the board chair if the donor questions the CEO's salary and benefits.

K. Sophisticated Investment Management and Reporting

The final essential ingredient for a successful endowment campaign is an up-to-date investment policy with a long-term investment horizon and allocation. The foundation must be able to share the investment strategy, describe how the investment managers are selected and reviewed, and share actual results compared to the returns of the key indices for the asset allocation for 10, 5, 3, 1, and year to date periods. Donors - especially those interested in making large endowment gifts - are likely to have a high level of investment experience and will expect professionalism (and results) if they are to turn over their funds to the foundation for management.

L. Access to Information

Donors increasingly expect easy access to information about their account to include fund balances, a history of gifts made from the account, and investment performance. For donor advised funds, the donor often expects to be able to electronically recommend grants from a fund. This access and engagement is an important element of the donor experience.

M. Active Engaged Board

Finally, endowed is only successful if the board is committed, can make the case, and is actively involved. One way to gauge engagement is the number of board members willing to make calls, and the number who have personally contributed to the foundation's endowment.

V. Step Three: Building 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 foundation.* 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."

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- *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 foundation'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*.

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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) *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.)

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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 expec*t 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.
- Give 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.

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VI. Step Four: Mastering the Tools and Options

A. The Power of Gift Planning: Meeting Donors Where They Are

Community foundations have the ultimate planning platform. Because the foundation reaches into so many corners of the philanthropic community it can serve a variety of donor needs. But planning is about more than simply having a wide range of charities - it is about the ability to accommodate a wide range of assets and address multiple needs with one gift agreement. Planning allows the donor to combine personal and charitable goals so that the gift design is tailored to the individual, corporation or foundation.

Listen to donors when planning. Look for ways to maximize their charitable goals in planning their endowment gift. The key is to talk to donors about their short-term and long-term charitable objectives. Help them define success and how they will know when they have achieved their goals. Then look at the planning options as a way to achieve that goal through short-term funding, long-term funding, or a combination of the two.

B. 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

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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 4 provides a perspective of the changes that occur as donors move through age and economic cycles in their lives.

TABLE 4
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

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C. Outright Gifts - With a Focus on Non-Cash Assets

There are three key scenarios in which donors may choose to use current assets to fund endowment:

- The donor wants to serve a leadership role in building an endowment from current assets and has sufficient assets to do so with confidence. These donors are generally high net worth who can afford to currently give away both the assets and the income. This donor may come to the door with their own goals and feel the foundation is the best platform for long-term management, or may be invited through the door

- The donor has a transactional opportunity such as retirement, sale of a business, sale of real estate, or even an inheritance. Anticipate these opportunities and share planning options with them in advance of these events so that they think of the foundation and its resources when the event occurs.

- The donor missed the pre-transaction window and now has a tax events that prompts them to give to offset unusually large taxes in a single year that is driven by transactional events. In essence, if the donor misses the opportunity to transfer assets in advance of the financial transaction, there is still an opportunity to make gifts in that year that will temper the tax impact.

Some donors may have an interest in funding initiative endowments, agency endowments, or adding to field of interest or unrestricted endowments but may not have significant assets. Make sure all donors can participate, event if it is on a $100 level. A small investment during life can lead to larger investments through an estate.

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.[8] This price is published in the *Wall Street Journal*, on various websites, and other written or electronic journals that track the securities market.[9]

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[8] Reg. § 20.2031-8(b)(1).

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

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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.[10] 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.[11] 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.[12] When the gift value exceeds $10,000, a full qualified appraisal must be attached to the return.[13] 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 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.[14] When the charitable deduction for tangible personal property is unrelated to the charity's mission, the value of long-term appreciated property must be

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

[11] 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>.

[12] 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).

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

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

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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.[15]

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.[16] 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 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.[17] The IRS publishes specific guidelines on how to use market data to appraise undeveloped real estate for income, estate, and gift tax purposes.[18]

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.

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[15] IRC § 170(e)(1)(B).

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

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

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

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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.[19] 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.[20] 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.[21] 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).[22] 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.[23] This is not possible 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.[24]

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[19] 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>>.

[20] Reg. § 1.170A-4(a)(3).

[21] 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.

[22] 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.

[23] IRC § 691(a)(1).

[24] Ltr. Rul. 8010082.

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D. Gifts that Pay Income

While life income gifts represent only a small part of the deferred gift market, they meet a special need for the donors who use them who want to make a current gift but who need a revenue stream from the assets. Charitable remainder trusts, pooled income funds, and charitable gift annuities are three types of life income gifts that can be selected to fit the assets, donor needs, and income stream required.

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. [25]

- 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), 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.);[26]
- 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;[27]
- 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.

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

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

[27] Reg. § 1.664-1(a)(4).

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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

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

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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 5
COMPARISON OF VARIOUS CHARITABLE REMAINDER TRUST OPTIONS
$100,000 TRUST, SINGLE LIFE AGE 72, APRIL 2016 (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.[28] 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.[29]
- 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.[30] It is defined as follows:[31]

- 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.*

- 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

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

[29] 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).

[30] IRC §§ 501(m)(3)(E), -(5),514(c)(5).

[31] IRC § 514(c)(5).

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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.)[32] There can be no more than two annuitants named in the contract.[33]

- 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*.[34]

Most charities use the rates set by the American Council on Gift Annuities (ACGA).[35] 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 6.

TABLE 6
SAMPLE SINGLE LIFE CHARITABLE GIFT ANNUITY RATES
RECOMMENDED BY THE AMERICAN COUNCIL ON GIFT ANNUITIES
(EFFECTIVE JANUARY 1, 2012 - UNCHANGED AS OF APRIL 1, 2016)

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%
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%

[32] IRC § 514(c)(5)(B).

[33] *Id.*

[34] IRC § 514(c)(5)(A).

[35] American Council on Gift Annuities, http://www.acga-web.org.

Age	*Recommended Annuity Amount*	*Age*	*Recommended Annuity Amount*
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%		

Many retired individuals – or those planning for retirement – create charitable gift annuities to generate more income. In this example, Doug and Anita Jones, ages 70 and 71, used a maturing certificate of deposit to create a charitable gift annuity. The certificate of deposit had a renewal rate of .75% ($187.50); the charitable gift annuity provided a yield of 4.6% ($1,150). In addition, $306.33 of the charitable gift annuity payment is ordinary income, while the remaining $843.67 is tax-free return of income.

Contributed amount:	$25,000.00
Charitable deduction:	$ 8,042.33
Annuity amount (4.6%)	$ 1,150.00
Tax-free payments:	$ 843.67
Ordinary income:	$ 306.33

TABLE 7
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
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

Form of Charitable Gift Annuity	*Description*
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 8
SAMPLING OF DEDUCTION AVAILABLE TO DONORS AT VARIOUS AGES USING JULY 1, 2011 ACGA ANNUITY PAYMENT RATES; DATE OF GIFT 4/1/2016 CFMR 2.2%
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.[36]

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*.

The Internal Revenue Code describes a pooled income fund in the following terms:[37]

- 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.

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[36] Reg. §1.642(c)-5(b)(3).

[37] IRC§ 642(c)(5).

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E. Gifts Deferred Until Death

Many donors prefer to create endowments by using deferred gifts because it allows them to use the assets during life and then make a significant charitable gift at death. The ability to use deferred gifts to fund endowment gives every donor a way to impact the future. Provide donors information on simply ways to make gifts to charity through their estates, whether by naming the foundation as beneficiary of their IRA, naming the foundation as beneficiary of an insurance policy, or creating a bequest though a will or will substitute. Focus on easy options. Encourage donors to consider how they want to give back to their community or build stronger communities.

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.[38] Bequests are a popular method of giving, representing $28.13 billion of the $358.38 billion contributed to charity in 2014 as reported in *Giving USA 2015*. Bequests are flexible and can be created in any of the following ways:

TABLE 9
BEQUEST STRUCTURE OPTIONS

Form of Bequest	*Example*
A specific dollar amount	I leave the Community Foundation $10,000.
A percentage of the total estate	I leave the Community Foundation 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 the Community Foundation one-third of the residue of my estate.
All of the remainder	I give the Community Foundation all of the property remaining after paying debts, expenses, and specific bequests.
A specific class of property	I leave the Community Foundation all of my savings bonds.
A specific asset	I leave the Community Foundation my residence at 2320 Crest Road, Birmingham, Alabama 35223.
A formula distribution	I leave the Community Foundation an amount equal to ten times the size of the average gift made to the Community Foundation over the last three years of my life.

[38] 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.

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Form of Bequest	*Example*
A contingent bequest	In the event my wife does not survive me, I give the property set aside for my wife to the Community Foundation.

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.

F. Virtual Endowments

Virtual endowments allow donors to see a lifetime impact from a deferred gifts. A virtual endowment allows a donor to establish an endowed fund agreement that will be funded through his or her estate. However, during life, the donor makes an annual contribution of the amount that the endowment will eventually distribute. For example, if the donor plans to fund a $1 million endowment through her will, she would make a $4,500 or $5,000 annual distribution to be used in accordance with the distribution terms of the endowment so that she can see the impact of the gift during life.

G. The Follow Through

Once you begin the visioning process with the donor, keep it going. Some donors plan gifts very quickly and follow up with their attorney after an initial conversation. Others may take years, observing, questioning, and learning about opportunities until they are comfortable making a decision. Have patience and persistence. Keep the conversation going.

VII. Step Five: Marketing, Messaging, and Conversations with Donors

Positioning the endowment in the community is essential for two reasons. First, it forces the foundation to think about the role in terms of meeting donor needs and impacting the community. Second, it helps to educate and build excitement about the endowment as a way to leverage impact rather than restrict funding opportunities.

A. The Role of Endowment in the Life and Impact of the Foundation

Begin with the assumption that most donors do not understand endowment, or if they do understand it the knowledge comes from their personal experiences. Some prospects may have served on boards and had a positive or negative experience; some may have had children at a school like Harvard, and wondered why the tuition was so high when the schools endowment was $30 billion; and others still may have received a scholarship and benefited from an endowment. These experiences shape knowledge, attitudes, and expectations.

Therefore, one of the most critical elements in positioning the foundation is education. You must tell the public, donors, and prospective donors the role of the endowment, the impact of the endowment, and how the endowment serves a critical role in advancing and achieving the foundation's mission.

B. Where and When to Communicate

Once the endowed funds are 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.

Communications 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.

C. Having the Conversation with Donors About Endowment

1. It's Not About the Foundation's Goals - It's About the Donor's Goals

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 community 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 with yours.

Too often community foundations pursue endowment for their own purposes. These purposes may include:

- A desire to increase the foundation's asset size (to become the largest in the state, or the region)
- A desire to eliminate the anxiety of balancing the annual operating budget by ensuring an increasing stream of fee revenue
- The desire to increase funds available for the foundation's unrestricted grant making
- A mandate from the board to increase assets (from the last strategic planning process)

The most important reason to build endowment is not on this list. That is, to meet the donor's charitable objectives. It is not about what the foundation wants; it is about what the donor hopes to accomplish. While the foundation can provide the vision, community strategies, and the programmatic and leadership abilities to achieve goals with permanent funds, these opportunities must align with the donor's vision, goals, and objectives if that donor is going to transfer endowment funds to the foundation.

2. Having the Conversation: The Magic Questions

You are calling on your most committed donors, so always begin with a "thank you" for their current and ongoing support. Remind them they are partners in your success and their gifts have been critically important in achieving mission. This is not only a great stewardship tool, but it reminds the donor they are a partner and insider.

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Then find out more about why they are so committed. This is a discovery process. The goal is not only to find out what brought them to their commitment, but to learn more about their hopes, dreams, and concerns for the future.

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) *What was the first charitable organization you funded in this community and when did that happen?* This is a open ended question that helps you open the door to understanding the donor's charitable perspective and engagement in the community.

2) *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?

3) *What are our community'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 community's future? What do they believe are the greatest hurdles your community faces?

4) *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.

3. Understanding Motivation

Donors are motivated by a variety of factors (or combination of factors) that are unique to that donor. 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) A commitment to the vital role your organization serves in the community, the country, or the world
2) A commitment to "give back" in appreciation for the many gifts the donor has received from others
3) An appreciation of the organization because of a service provided
4) An understanding of the nonprofit's contribution to quality of life
5) The nonprofit's role in research or development
6) Personal gratitude for economic success
7) An interest in facilitating change in the community through the nonprofit organization
8) An interest in establishing a memorial for the family or an individual
9) An interest in recognition
10) A desire to influence or control the nonprofit's activities
11) Guilt
12) Tax incentives

Even though those motives for giving are unique, they do fall into common patterns. Consider the most common motivations uncovered in two surveys: *The Nonprofit Marketplace: Bridging the*

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Information Gap in Philanthropy (2008)[39] and *Money for Good Study I* (2010).[40] While these surveys attached different labels to similar motivations, there was a great deal of consensus in the giving motivation explanation.

TABLE 10
TOP DONOR MOTIVATIONS FROM SURVEYS

Label Used by Nonprofit Marketplace: Bridging the Information Gap in Philanthropy	*Label Used by Money for Good Study I*	*Description of Motivation*
Investor		Impact-oriented
Devotee	Faith-Based	Gives primarily to religious organizations
Altruist	High Impact	Gives to compelling social causes, largest social good
Communitarian	See the Difference	Gives to local charities that benefit the donor's community
Socialite	Personal Ties	Gifts based on peer network, social opportunities, request of friends, or if familiar with people at a charity
Repayer	Repayer	Gives to charities from which they have directly benefited
Dynast		Gives to well-run charities that provide information and interaction

4. Listening Your Way to the Gift

Once the donor has expressed an interest in a specific area, motivations in giving, and/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.

5. Intentional Engagement

Intentional engagement is the key to successful fundraising. *"Intentional"* refers to a strategy, and knowing who you are trying to engage, why this is important to the one engaged, and what you expect to happen as a result of the engagement.

"Engagement" refers to the method with which you connect the individual to the need or outcome. There are a number of ways to engage as described below. Different individuals will have different preferences. Being intentional means you consider the various segments and needs and engage individuals where it is most beneficial or meaningful.

[39] *The Nonprofit Marketplace: Bridging the Information Gap in Philanthropy* (2008), httyp://www.givingmarketplaces.org/materials/whitepaper.pdf, p. 26.

[40] *Money for Good Study I,* http://www.hopeconsulting.us/wordpress/wp-content/uploads/2013/04/MoneyForGood_I.pdf p. 23.

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a. Personal Engagement

Donors tend to give where they are involved, and where they have a connection. One of the most effective ways to create this connection is through engaging them on a personal level. While not all donors want to participate personally, inviting them to do so and providing a variety of ways in which they can get personally involved increases the possibility they will do so. Options include:

- *Site visits to prospective grantees.* These may be nonprofits seeking grants from the foundation's unsolicited funds, these may be grantees of field of interest funds that align with donor interests, or they may be visits to consider grants from the donor's donor advised fund, converted private foundation, or supporting organization. Site visits allow donors to see the need, to meet the individuals who manage the charity, and to explore long-term solutions that require endowment.

- *Grants meetings.* Many community foundations engage non-board members in the grant review process. This is appealing to donors who want to be involved in decision making, who want to learn more about the needs in the community, and who are looking for innovative ways to solve big and small issues.

- *Reports on results, both online and in public forums.* Invite funders to participate in meetings, or share online links. Share follow up plans. Show them how sustaining the investment in solutions makes a difference.

- *Stewardship events.* Celebrate donors and their investment in the community.

- *Professional advisor events*. Use donors on a panel to talk about their planning experiences, both what works and what disappoints about using advisors for planning. Use donors on a panel to talking about their giving goals, and what they expect and need as a part of the charitable planning process. This is a way not only to expand professional advisors' thinking on these issues but to get donors directly involved as an advocate for gift planning and long-term planning. Do not over look the fact that every advisor is a potential donor.

b. Online Engagement

More and more donor experiences are online, especially those involving millennial donors. Donors do research online. Make nonprofit organization resource links available on the foundation's website. (Guidestar, www.guidestar.org; Charity Navigator, www.charitynavigator.org; Charity Watch, www.charitywatch.org; Great Nonprofits, http://greatnonprofits.org; Center for Effective Philanthropy, www.effectivephilanthropy.org). Post survey results, grant making results, blogs on current strategies, and information/outcomes on initiatives online. Give donors a voice through social media. Highlight donor stories, nonprofit stories, and advisor stories online. Give donors access to information on funds they have created and may still have a voice in. Give prospective donors links to financial information, investment information, and grant making information online. Set goals, measure traffic, and analyze results to determine which is meeting the greatest need, which works best, and what needs to be improved.

c. Donor Advised Funds

One of the ways donors may initially get involved in giving is through donor advised funds. Offer more than a "checkbook" experience by providing opportunities to partner with the foundation in grant making in areas of interest to the donor. This is a great platform to provide donors with a true value-added experience to leverage their personal goals. This is a great opportunity to educate donors about

community needs. And is offers a great way to highlight the value and knowledge of the foundation's program staff.

d. Other Current Giving

Look for ways to get donors engaged in initiatives that align with their personal charitable interests. Or, get donors involved around field of interest funds addressing a specific charitable interest. This is a great way to engage first time donors who may be attracted to the foundation's collaborative approach to community solutions (through its initiatives), or to join with other like-minded donors around a field of interest. The key appeal is the leverage of multiple donors or agencies, and the depth of the foundation's knowledge about the issues and solutions.

e. Deferred Giving

Deferred giving is the ultimate way to invest in the community and may come from two sources. The first, and most likely, are current donors who are familiar with the foundation, value its professionalism and expertise, and trust it to carry out their charitable objectives. The second, and perhaps the source of the largest gifts, is the advisor audience. For advisors to recommend the foundation as a deferred gift platform for their donors, the advisors must:

- Understand what a community foundation is and its role in long-term giving;
- Have enough connection to the staff and/or board to have a high level of trust that the foundation will honor its commitments to donors; and
- Understand the various ways in which the foundation can meet the client's planning needs.

Therefore, to be successful the foundation must educate and engage the community's professional advisors in a way that meets the advisor's needs in serving their clients.

f. Family Engagement

Many donors struggle with a way to engage lower generations in philanthropy. Listen to donors around these issues to determine how you can engage them by providing support in addressing this need. The advantage to the foundation is that it can develop relationships with generations of prospects.

- Conduct site visits for children. This allows the foundation to begin to educate children on key community needs, and how to evaluate those needs.
- Allow children to participate in funding initiatives as a group. Coach them on decision making. This may either be a community initiative in which a pool of children can contribute (a giving circle for children) or it may be a junior board for a donor advised fund, a converted private foundation, or a supporting organization).
- Help families engage children in the giving process. Facilitate a family meeting around the family's giving.
- Help families teach children about responsible giving by bringing in speakers who can coach them in engagement of lower generations, or teach them how to teach their children about giving.

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VIII. Step Six: Making a Plan and Setting Goals

Building endowment is a long-term, not short-term, exercise. And building the platform, making the case, and crafting the messaging and reporting will open the door to new donor engagement opportunities. So it is worth taking the time to assess your needs, make your list of to do items, and consciously and persistently follow through.

A. Determine How You Will Build Endowment

There are many ways to build endowment, each of which reflect different strategies, philosophies, and capabilities. The following seven opportunities represent a starting point in how to achieve your goals. Some community foundations may select only one option; others will select a combination.

1. Endowment Campaign

a. The Most Difficult Option Available

Ask any nonprofit organization that has conducted an endowment campaign and they will tell you it is the most challenging form of campaign possible. Why? Because endowment campaigns focus on building funds now that will be spent in the future. It is difficult to share exactly how the funds will be spent, when they will be spent, and the impact those funds will have. Further, it is difficult to build a sense of urgency when there is no building to build, or problems to solve that have an immediate timetable.

b. Permanent Funds to Support Initiatives

Community foundations are increasingly identifying community initiatives - for example, to reduce crime, or address the problems of an aging community, or to create connecting pathways for pedestrians and bicycles - and building endowments to provide ongoing support. This allows foundations to go beyond one-time grants to provide systemic solutions to important community issues. Donors identify with need, understand the importance of ongoing funding, and will support the initiative by providing permanent funds. In many cases this will attract new donors to the foundation who have a passion for the initiative but may not have been familiar with the foundation prior to its pursuit of the initiative.

c. Permanent Funds to Achieve Strategic Goals

Approaching donors to fund strategic community goals is closely related to funds for initiatives. A strategic goal may include building funds to create a business incubator for emerging tech companies, or to raise the educational standards of the elementary schools in the county, or to provide scholarship funds for all city school students who want to pursue a college education. These are strategies that have a clear vision and purpose that attract donors who share those goals.

d. Permanent Funds for Catalyst Purposes

For the Community Foundation of Greater Birmingham's fiftieth anniversary it launched a community campaign for a Catalyst Fund. These funds, while designed to be spent down, were focused on projects outside of the foundation's traditional grant making and were designed to be a catalyst for growth and progress in the area it served. Contributors had a voice in the choices for projects which ranged from a project to transform a downtown city block ("Prize to the Future"), to imaginative lighting for the underpasses that connected downtown to midtown, to funding to launch a Violence Reduction Initiative, to funding research for shared government resources and cooperation across the county (where there are 36 municipalities). A catalyst fund could easily be endowed, with the purpose of providing ongoing funds to encourage city growth, city cooperation, or to attract new businesses.

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e. Field of Interest Funds

Another way to build permanent funds in a campaign format is by identifying groups of donors with a single passion or field of interest, whether this interest centers around healthcare, education, environment/green space, housing, or women's issues. Some foundations have multiple field of interest funds that they actively market. They generally have grant making and programmatic expertise in these areas, close relationships with the nonprofits who work in the field of interest, and in that way can assure donors their gifts will be leveraged not only through the expertise of their program team but through the combined power of multiple donors.

2. Serving as a Platform for Supporting Organizations

Donors who want a combination of a separate entity with its own board and operating platform with the support of the community foundation staff may consider a supporting organization that supports the community foundation. Supporting organizations are public charities, separately incorporated, with their own by-laws, board, and grant goals. There must be a nexus and control exerted by the supported organization (the community foundation); most require the supporting organization be organized as a Type I or Type II, especially with the changes made by the Pension Protection Act to Type III SOs. Generally the community foundation has a strong voice in electing the board, but offers enormous benefits to a supporting organization in terms of administrative and grant support, as well as hosting and supporting the board meetings. Supporting organizations are attractive to community foundations because they add permanent assets and put the foundation in a close working relationship with the entire family.

3. Conversion of Private Foundations

Conversion of private foundation is one of those endowment options that appears easier than it is. While it is easy to make the intellectual argument that a family has many advantages in transferring the family foundation's assets to a donor advised fund (no minimum funding amount, no costly annual tax return, reduced accounting costs, reduction of personal liability for board members, enhanced grant making because of the community foundation's programmatic expertise), the truth is that most family foundation cherish the control and like making decisions on allocation of funds and administrative management.

It is relatively easy to identify helps to have a strategy, which may include the pursuit of smaller foundations that can achieve significant cost savings by using the community foundation as its platform, or larger foundations where the complex family structure requires a strong administrative platform. The better option may be to cultivate private foundations and remain visible so that the foundation is an attractive option at the point in the family foundation's life that no one wants to continue handling the administrative responsibilities.

4. Endowing Donor Advised Funds

There are many ways to endow donor advised funds:

- Require that all new donor advised funds be endowed, and allow donors to distribute only the spending amount
- Offer both endowed and non-endowed donors advised funds, making the strong case for the continuing impact of those that are endowed
- Include language in all donor advised fund agreements that allocates funds remaining after a specific number of years, or after the second generation advisory period, to unrestricted endowment

- Include language in donor advised fund agreements that transfers a percentage of the original fund value to unrestricted endowment, or transfers a portion of the funds to unrestricted endowment on the transfer of advisory power to the second generation

5. Bequests and Deferred Gifts

The simplest and most effective way to build endowment is through estate and deferred gifts. These include endowment, retirement plan/IRA beneficiary designations, insurance designations, charitable remainder trusts, charitable gift annuities, and even charitable lead trusts. Invite donors to perpetuate their impact on the community through their estates. The foundation offers a number of advantages as the platform for their perpetual gifts:

- It provides ongoing accountability and oversight for donor objectives
- It has *cy pres* power, so that if the donor's original purpose is no longer practical, feasible, or necessary the foundation can redirect the funds
- Unrestricted funds can be leveraged through allocation to the community's greatest needs
- The foundation's leadership is comprised of key community leaders

There are three major audiences for this appeal.

- *Current fund holders.* These donors have seen first had the value of the program team, the impact of the foundation's grantmaking, and the foundation's ability to leverage results.

- *Clients of professional advisors.* Advisors are reading more and more about donor lawsuits, lack of nonprofit accountability in spending endowed funds. In addition, these advisors have clients who want to benefit multiple organizations and ensure oversight of spending.

- *Community donors who have a passion for specific foundation initiatives, strategies, or fields of interest.*

6. Transactional Opportunities

The foundation's success in transactional opportunities is tied to the ability to reach the community and educate them about philanthropic options that may meet personal and charitable goals in the most effective way. 2014 taxes on both income and capital gains have increased significantly, creating an opportunity for donors to combine charitable giving with tax reduction, retirement planning, and estate planning goals for a more powerful result. Transactional opportunities for gifts may include:

- *Mergers and acquisitions.* Local companies are merging or being acquired; public companies are being split, sold, or acquired. Both offer opportunities to community foundations, especially when the company has a significant local presence.

- *Real estate sales.* Donors who seek to sell large blocks of property either acquired or inherited, donors who downsize, and business sales.

- *Retirement:* Donors who retire - especially donors with public companies who retire with large blocks of the stock or stock options - often engage in a restructuring of assets (or realization of the options) within a year or two or retirement, at the same time they are restructuring their retirement plans.

The key to engaging donors in transactional events is ongoing education and timely reminders when public transactional events occur.

7. Pursuing Agency Endowment

Some community foundations actively pursue agency endowments not only as a service to smaller nonprofit organizations in the community, but because they believe the foundation's role is to build strength in the field to ensure ongoing, adequate resources to meet the community's needs. The focus on agency endowment has several elements:

- The foundation provides training to nonprofits, their staffs, and their boards on how to talk to donors about endowment.

- The foundation serves as the endowment operating platform. This means the foundation handles gift acceptance, provides substantiation, provides the accounting, investment, and reporting for endowed funds.

- The foundation's staff meets with donors who want to make endowed gifts, assisting them in working through structure and options and providing the fund agreement.

It is apparent that this approach has the benefit of building assets and increasing fee revenue. However the downside is that the process is very time-intensive and builds funds for community nonprofits but provides no additional resources for allocation by the foundation's grants committee.

B. Making a Plan

Use the goals to set your action steps. Break the goals into individual steps required to achieve each one using a chart like that in Table 11. 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.

TABLE 11
IMPLEMENTATION PLAN WORKSHEET

Action Steps	*Person Responsible*	*Staff/Volunteer Resources Required*	*$$ Resources Required*	*Timeline*
1.				
2.				
3.				
4.				
5.				

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IX. Step Seven: Metrics and Measures - Tracking Success

A. What Are Metrics?

Metrics are quantifiable measures used to track the elements of an activity or process and/or the results of that activity or process. Nonprofits large and small are using metrics to move the fundraising team towards best practice, and to measure everything from development ROI, to staff performance, to donor behavior. If implemented well, it allows an organization to analyze past and current performance, as well as to set goals for future performance.

There are two types of gift planning metrics: activity metrics and performance metrics. These should be balanced. Organizations that use only outcome metrics (performance metrics) with financial goals will miss the opportunity to guide and improve behavior through activity metrics. Consider the following options in each category.

1. Activity Metrics

Activity metrics focus on those activities that will lead the gift officer to success. The most common activity metrics include the following:

- T*he number of face to face contacts with prospects/donors for the purpose of qualification, cultivation, solicitation, or stewardship* (please note that the type of visit should be distinguished in the reporting);[41]
- *The number of other substantive contacts* with prospects/donors for the purpose of qualification, cultivation, solicitation, or stewardship;[42]
- *The number of donor stewardship events* and the number of attendees (this might include a Legacy Society event, for example);
- *The number of contacts with non-gift planning development staff* to build relationships that may lead to referrals;
- T*he number of training events* for non-gift planning development staff;
- *The number of contacts with professional advisors;* and
- *The timeliness of the call reports* following visits.

2. Performance Metrics

Performance metrics focus on outcomes; performance metrics measure the results of the activities noted above. These may include:

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[41] Many organizations use a stewardship grid that charts a specific number of non-personal contacts with a donor (newsletter, annual report, invitation to an event, and similar) as well as personal contacts with a donor (personal call, personal visit, contact from the CEO) for donors at higher giving levels, long-term multi-year givers, or donors with deferred gift commitments. It is important to separate the visits into types, and to coordinate the stewardship visit metric with the number in the stewardship grid.

[42] Letters, e-mails, and telephone calls can all be substantive, but not every e-mail, letter or telephone call is substantive. A mass mailing of a mid-year generic stewardship letter, for example, does not represent a substantive contact, nor does a mass e-mail. If every contact is counted the metrics become meaningless.

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- *The number of new deferred gift commitments* documented;
- *The dollar value of new deferred gift commitments* documented;
- *The number and dollar value of charitable gift annuities* executed;
- *The number and dollar value of charitable remainder trusts* naming the institution;
- *The number of referrals from non-gift planning officers to the gift planning team*; and
- *The number of referrals from professional advisors*.

For some charities, such as community foundations, there may be additional performance metrics tied to specific goals such as the dollar value of permanent funds (endowed funds) or the dollar value and count of new funds of all types. Other organizations may be in campaign and have specific performance metrics tied to campaign goals. Performance metrics should fit the organization and its goals and objectives.

Please note that one performance metric not listed is the dollars generated by maturing deferred gifts, such as estate revenue or assets from terminating charitable remainder trusts. While this figure is extremely important and a figure that should be measured, tracked, and analyzed in context of past revenue and the trends for the future, it is not a metric that is appropriately assigned to an individual gift officer. The gift officer has little control over the date of death of the planned gift donor and the revenue is generally the work product of a gift officer of the past.

B. How Metrics Drive Success

In gift planning, as in all areas of fundraising, metrics should be used to encourage and farm success. Metrics have long been a part of the business world, and moved to the nonprofit world (in earnest!) in the last decade. Metrics have several purposes:

- *Metrics are designed to focus staff behavior on activities that produce the best results.* It is easy to move off course or get distracted in the course of a day. Metrics are a reminder of the activities that take priority. We have all observed that people prioritize activities that are measured and de-prioritize those activities that are not measured. If staff members meet the metrics set for them, they should be successful in their work.
- *Metrics are designed to improve performance.* This means that if the individual focuses on and achieves the activity metrics, performance metrics should improve.
- *Metrics drive strategies.* For example, if the organization has resolved to build deeper and stronger donor relationships, then a metric that drives that strategy is the number of face to face visits.
- *Metrics force strategies.* For example, if an organization knows that it must steadily increase its matured deferred gift revenue in future years, it must increase the number of gift commitments in the pipeline, and in turn must identify activities that will result in the required number of gift commitments for the pipeline.
- *Metrics reflect whether a particular strategy is succeeding or failing.* For example, if the goal of personal visits is to increase the number of deferred gift commitments, then measuring those new gift commitments provides a barometers to indicate whether that strategy is working.

C. When Metrics Can Be Painful

1. A Singular Focus on Cash

Cash is the favorite metric of all nonprofit managers. After all, gift planning is part of the fundraising team, isn't it? Isn't fundraising about cash? Here's the problem in introducing a cash flow metric for gift planning in the early years of the program changes gift officer behavior - because gift officers prioritize what they are measured on. A gift officer with a cash flow goal will focus on gifts that create cash flow. This may be major gifts, or even charitable gift annuities because those gifts result in measurable revenue. This quickly takes a gift planning program off track.

2. Inappropriate Metrics

Metrics are often set by having a fundraising manager pick up a phone, call a colleague they have met at a conference or across town, and ask about the metrics that colleague is using to measure gift planning. Those metrics are then picked up and adopted by the charity without an evaluation of appropriateness. Metrics adopted in this fashion can often be inappropriate simply because every charity is structured differently and is in a different stage of fundraising maturity.

3. Lack of Discipline in Recording Data

Data is the heart of any development operation, and it is not possible to talk about measures and metrics without addressing the importance of how those measures and metrics are generated. Any aspect of activity or results that is measured must have a discrete field in the data system, and the organization must be able to easily extract the information into a report format.

Perhaps the biggest cultural challenge in initiating a gift planning program and developing metrics is creating clarity around the data that is collected, and adopting discipline in recording the data. Too often, gift planning information is relegated to the notes section of the database where it is lost to anyone other than someone who goes to the notes pages.

1) *The first step is to determine what will be measured.* Will you measure calls? Will you distinguish between qualification, solicitation, and stewardship? Will you measure referrals from other gift officers? What about membership in the Legacy Society, and type of gift commitment (bequest, IRA beneficiary designation, insurance beneficiary designation, CRT irrevocable beneficiary, CRT revocable beneficiary, etc.)? Are you collecting demographic data, or family data, or information on the donor's charitable priorities? Think short-term but look long-term.

2) *Next, ensure the fields exist to hold that data.* Most systems provides input fields for calls, but the tables for those fields may need work to include the types of calls gift planners are making. Many systems provide no field at all to record the dollar value of revocable and irrevocable deferred gifts because all cash fields are tied to balance sheet, leaving the notes field as the only place to tuck the information. Systems like Raiser's Edge have a gift planning add on that solves this problem, but the charity may not have purchased that add on. Make an assessment of the system using the "what you need" lens and work with the vendor to use open tables or fields to hold the critical fields.

3) *Then move to the reporting format or the query format that will be used to gather the data.* Always start with a mock up of the report format and work with the data manager to determine if the report can be configured to be generated automatically with a change in date fields, or if the report must be manually constructed using a series of queries. This discussion has a bearing on the discrete fields and tables addressed above and may lead to a reconfiguration of those tables to achieve the desired report goals.

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4) *Finally, create discipline around recording the data.* Without discipline, gift officers will wait until the last day of the month to record calls or findings leading to a rushed effort to do the minimum to record those elements (like calls) that are measures. Some activities will be missed. Some gift officers will simply not stop long enough to record those visits. And when this happens, critical data is lost forever. You cannot measure what is not recorded and the program manager loses the opportunity to do critical analysis of activities and results.

D. Using Metrics to Build Program Strength

While metrics tend to focus on gift officer performance, or even departmental performance, the benefits of the data collected for measure can have broader value.

1. Use the Data to Manage the Elements of the Planned Giving Process

The data is most valuable in examining the success of the gift planning program, its gift officers, and its many activities.

- *Use the data to set realistic goals for the following year.* Early year goals may be fabricated because the organization must set goals (and has no experience in how its donors will respond). Once the program is underway, however, there should be increasing strength in the growth of key metrics. Use prior year results to project future potential.

- *Use the data to analyze marketing impact - measure responses to each marketing activity with both a short-term and long-term lens.* Many times gift planning information arrives in a donor's mailbox or inbox when they are not ready. They may hold the information and respond to it in a year, or even two years. To the extent possible, attempt to determine the source of donor inquiries and to learn what prompted them to reach out to you.

- *Analyze call activity from program start to program end.* In the early years of a gift planning program prospects you have identified may have had little contact with a member of staff. It may take three, four, or even five qualification and cultivation calls before moving to solicitation and gift closure. Measure the cycles. With strong stewardship and systematic outreach, the call/gift closure cycle should shorten. If there are gift officers with heavy cultivation call records and low gift closure records, get involved (accompany them on a call) to determine why their gift cycles are longer than remaining staff.

- *Track the impact of calls on advisors or events for advisors (two very different activities) on gift referrals from those advisors.* Referral rates should increase as relationships deepen.

- *Track the impact of non-gift planning staff training on referrals from gift officers outside of the gift planning team.* If the training is on track, and referrals are handled in a way that builds strength with the gift officer's relationship with the donor, those referrals will increase. If they begin to turn down, investigate to determine what is negatively impacting those referrals.

- *Measure the impact of bequests and other planned gift commitments on the donor's annual giving behavior.* While not every deferred gift donor is an annual donor, the vast majority are. With strong stewardship and engagement, those bequest donors become more invested on an annual basis, giving more consistently and increasing the size of their gifts at a faster rate than donors who have not made that commitment.

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2. Use the Data to Educate Upper Management and Recalibrate Expectations

Use the data to educate management about gift planning opportunities, gift planning results, and gift planning potential. Board members, the executive team, and fundraising managers focus on cash flow because that is the only measure they have. The metrics and data analysis suggested here allows management to focus not only on results, but the activities that lead to results. The gift planning pipeline evidences future impact. The focus on prospecting underscores the value of every donor relationship from annual giving through principal gifts, and underscores the value of donor retention and stewardship. Where there are concerns gift planning will cannibalize annual gifts, show them the data that shows donors who have put bequests in place are more consistent annual donors.

3. Use the Data to Identify Trends

Sharp movements up or down in annual revenue trends or donor counts may make the case for gift planning stronger. Or, trends in increasing revenue streams from deferred gifts once a program begins to mature may make the case for additional investment. Use the data to continually make the case for gift planning as a critical revenue line.

4. Use the Data to Identify Opportunities

Look for opportunities in the data. Once you build a deep enough pool of Legacy Society members, identify trends and commonalities that will help develop a predictive profile to use to identify new prospects.The fundraising industry is placing greater and greater emphasis on data and charities are focusing more and more attention on business intelligence (some of the elements described above in "Learning from the Data," as well as predictive analytics, which is identifying donor behavior and patterns that indicate a propensity to make a deferred gift. While a few organizations hire data scientists, analytic teams, and invest in analytic software others simply use third party firms who can do the analysis. Whether your charity is involved in analytics or not, the more data available when the decision is made to engage in analytics, the more valuable and accurate the process is.

5. Use the Data to Celebrate Success

Look for positive trends and results. Celebrate success in all areas, financial and non-financial. Celebrate the team that made it positive. Data is often perceived as negative - measuring how a team falls short. Use it to celebrate the positive - forward movement and opportunities year over year.

E. Matching Objectives, Strategies, Tactics and Metrics

Once the program objectives, strategies, and tactics are established, set metrics that focus on those expected outcomes. It is the mismatch of objectives/strategies/tactics and metrics that creates discomfort and dissatisfaction among gift officers, and creates results that make it appear the program is not prospering, which may lead to reduced resources or termination of the program.

Since every gift planning program will have its own array of objectives, strategies, and tactics; it is therefore impossible to map every configuration. Table 12 below provides a checklist that allows a cross reference to program stages of maturity to bring these factors together in a guide to the most appropriate metrics.

TABLE 12
CROSS REFERENCE OF METRICS, GOALS AND PROGRAM STAGES

	Starting a Planned Giving Program	*Revitalizing a Planned Giving Program*	*Building a Strong Existing Program*	*Entering a Comprehensive Campaign with a DG Component*
Readiness for planned giving	X			X
Numbers of individual donors	X	X	X	X
Multi-year donor counts	X	X	X	X
Donor retention rates	X	X	X	X
Donor ages - counts by age bands	X	X	X	X
Revenue - by age bands	X	X	X	X
Revenue - by gift type - 10 year trends	X	X	X	X
Planned gift realized revenue - 10 year trends (Identifying testamentary or planned gifts received before a program is established provides insight into readiness and potential.)	X	X	X	X
Estate/testamentary gift statistics		X	X	X
Non-cash gift counts - 10 year trends	X	X	X	X
Planned gift pipeline		X	X	X
Planned giving marketing history and response rates	X	X	X Marketing is always important, but most progress in these programs is driven by face to face visits; response rates are important, but a lower priority.	X
Planned gift realized revenue - 10 year trends		Examine previous program years; do not set current goals too soon	X	X
Planned giving website counts		X	X	X
Stewardship counts	X	X	X	X

	Starting a Planned Giving Program	*Revitalizing a Planned Giving Program*	*Building a Strong Existing Program*	*Entering a Comprehensive Campaign with a DG Component*
Calls and contacts	X	X	X	X
Referrals and gift proposal counts		X	X	X

F. Five Tips to Consider

As you implement metrics in your program, remember these five key rules:

#1: Make sure the metrics are measurable, relate to the organization's strategy and are related to the gift officer's role, and the behavior you want to encourage.

#2: Make sure both managers and team members understand and buy into the metrics.

#3: Prioritize the data - it must be accurate and complete.

#4: Collect the data, measure the progress, provide the reports, and use the information!

#5: Adjust the metrics as strategies change, analysis indicates opportunities, and staff succeeds (or fails).

Metrics, if used appropriately for the purpose, stage, and structure of a planned giving program, can be the single most valuable management tool for the gift planning manager and gift officer. The keys to success are to focus on the program structure, the program maturity, and the program goals in developing key strategies, and to use metrics that are designed to advance and analyze those strategies. The exercise will not only keep gift officers focused on activities that breed success, but will create a valuable long-term framework for analysis.

X. Step Eight: Stewardship and Ongoing Donor Engagement

Donors are critical element of your foundation's ability to achieve its charitable mission. They provide the critical funds that allow you to hire staff, operate programs, and meet the needs of the community. Donors will not stay with your foundation long if they are treated as ATMs to provide the money you need when you need it. They require care, nurturing and development.

A. What is Donor Stewardship?

Donor stewardship is an active process of ensuring that donors have a positive, high quality relationship with your foundation that acknowledges and expresses appreciation for their significant role and partnership with the organization. Stewardship helps donors understand the significant role of their gifts, and fosters long-term giving relationships. Some charities make the mistake of cutting back on stewardship in difficult economic times, assuming it has little or nothing to do with giving. (They think only in terms of budget, cutting positions they believe are not directly related to fundraising.) However, this is the time when stewardship is most important. Here's why:

1. *First, it is an ethical issue.* Donors have entrusted their funds to you to achieve mission. They are your partners in mission. They deserve to be treated fairly and respectfully.

2. *Second, donors have choices.* Donors have many charities to choose from. In difficult economic times, they are most likely to cut back, keeping those charities on the list that have acknowledged their gifts and have reported on the impact of those gifts.

3. *Third, good stewardship leads to long-term gifts,* which ensures the organization's future.

There are basically four elements of stewardship:

1. *Strong policies and procedures* to maximize the use and value of the contributed funds. These include gift acceptance policies, investment management policies, internal accounting controls, and strong data management;
2. *Prompt acknowledgement of gifts;*
3. *Recognition and celebration of donors; and*
4. *Regular reporting* on the impact of contributed funds.

B. The Benefits of Stewardship

1. A Change in Culture

Some foundations (and many nonprofits) have cash cultures characterized by a desperate effort to raise enough today to keep the doors open and programs active. It takes discipline and planning to balance fundraising to not only raise operating funds, but build the platform for future revenue through endowment that will ease the annual cash struggle. Focusing on stewardship helps move the organization from a transactional culture in which donors feel like ATMs to a relational culture in which donors are valued and treated as a partner in mission.

2. Stewardship Connects Giving to Impact

A strong stewardship program goes beyond merely acknowledging the gift and thanking the donor. It also helps the donor understand how the gift impacted and positively changed lives. This not only educates the donor about the needs addressed by the charity, but reinforces the value of the gift and the needs for ongoing support.

C. Strong Policies and Procedures

Building a strong gift management and administration platform is essential in effectively managing contributed assets. These policies run the gamut from gift acceptance, investment management, endowment spending policies and similar processes.

1. 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.

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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.

2. Investment Management Policies

Investment policies should be written policies that are reviewed by the Investment Committee (sometimes a sub-committee of the Finance Committee) on an annual basis to ensure they reflect current law and economic conditions. The written investment policies that guide asset allocation, restrictions on risky assets, and clear objectives and statements of risk.

Clearly articulate the investment goals for the funds. Articulating the goals requires that you balance long-term return goals with risk, and that you establish the benchmark for expected total returns. For example:

- The goal of the investment process is to protect the assets and to increase the principal value to keep up with inflation.

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- 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.

Use a qualified professional investment manager to manage the funds. Give those managers the investment policies and then measure their annual performance in accordance with those standards. It is virtually impossible to get consistent year over year results by allowing a committee of the board to invest the funds. Committee membership changes, and as it changes the investment style and philosophy may change.

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.

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.

If your organization uses a third party to manage its funds (such as the Jewish Foundation of Memphis) and relies on that investment policy, it should be familiar with the policy and the investment process, and regularly review changes that impact management of those funds.

3. Endowment Spending Policy

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 Uniform Prudent Management of Institutional Funds (UPMIFA) standards.

4. Other Policies

There are many other types of policies that impact giving, such as data management policies, accounting policies, audit policies (to ensure the integrity of the funds), and even stewardship policies. Don’t overlook the importance of building a strong operating platform with integrity and consistency.

D. Prompt Acknowledgement of Gifts

1. Gift Substantiation

The IRS requires that all gifts of $250 or more be substantiated by a written statement from the charity that describes the gift, the amount and the date. A donor will not receive a deduction for a charitable contribution made in exchange for personal benefit, goods, or services. So the substantiation statement must detail the value of any goods and services received by the donor in exchange for the gift, For example:

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EXAMPLE 1

Jane Cassidy paid $800 to the High Museum in Atlanta to attend a museum ball that included dinner and dancing. The value of the dinner and dancing was $100. The museum must provide written substantiation that Jane paid $800, that the museum provided benefits (dinner and dancing) with a value of $100, creating a charitable contribution of $700.

EXAMPLE 2

John Jones, the architect for a hospital addition, had a dispute with the hospital over the amount due under his contract. He felt the hospital owed him $25,000 in additional payments due to changes made to specifications; the hospital argued it had paid in full. In an effort to resolve the dispute, he suggested that he contribute $25,000 to the charity in exchange for the charity's payment to him of the disputed amount. This payment, made in exchange for an expected payment, was not a gift.

The IRS allows the charity to exclude certain token or *de minimis* value items that fit within annual exclusion values) or that no goods and services were provided.

- Items received in a fundraising campaign in which the charity informs the donor of the deduction amount and the benefits have a *de minimis* value, considered to be the lesser of 2 percent of the gift amount or $102 or if the payment is at least $51, the items have the organization's name or logo (for example, bookmarks, key chains, mugs, posters or tee shirts) and the cost for the items is within the limits for low-cost articles of $10.20.

- Free, unordered low-cost articles.

- Newspapers or publications (not available to non-members or the public for a fee) designed to inform individuals of activities of the charity.

- Annual membership benefits provided in exchange for $75 or less that involve membership privileges such as free or discounted admission to facilities, discounts from the organization's gift shop, free or discounted parking, and free or discounted entry to events where the cost is within the low-cost article limit.

Requirements for substantiation are set out below in Table 13.

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TABLE 13
SUBSTANTIATION REQUIREMENTS FOR GIFTS

Market Value of Gift	*Cash*	*Marketable Securities*	*Non-Marketable Securities or Other Property*
Less than $250	- Written receipt from charity showing name, date of contribution, and amount - Cancelled check - Credit card slip - Other reliable evidence of gift	- Written receipt from charity showing name, date of contribution, and amount	- Written receipt from charity showing name, date of contribution and amount - Other reliable evidence of gift - Valuation of gift (not required to be qualified appraisal)
$250 to $500	- Contemporaneous written receipt from the charity showing type of payment, amount of payment, value of goods or services received by donor (or none).	- Contemporaneous written receipt from the charity showing receipt of securities and value of goods or services received by donor (or none).	- Contemporaneous written receipt from the charity showing type of payment, amount of payment, value of goods or services received by donor (or none). - Valuation of gift (not require to be qualified appraisal).
$501 to $5,000	- Contemporaneous written receipt from the charity showing type of payment, amount of payment from the charity showing type of payment, amount of payment, value of goods or services received by donor (or none).	- Contemporaneous written receipt from the charity showing receipt of securities and amount of payment, value of goods or services received by donor (or none).The donor must also complete Section A of Form 8283.	- Contemporaneous written receipt from the charity showing type of payment, amount of payment from the charity showing type of payment, amount of payment, value of goods or services received by donor (or none). - The taxpayers must include a description of the property and "such other information as the Secretary may require."
More than $5,000	- Contemporaneous written receipt from the charity showing type of payment, amount of payment from the charity showing type of payment, amount of payment, value of goods or services received by donor (or none).	- Contemporaneous written receipt from the charity showing type of payment, amount of payment from the charity showing type of payment, amount of payment, value of goods or services received by donor (or none).	- Contemporaneous written receipt from the charity showing type of payment, amount of payment from the charity showing type of payment, amount of payment, value of goods or services received by donor (or none). - A qualified appraisal must be obtained and the taxpayer must attach such information and such part of the appraisal as the Secretary may require.

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Market Value of Gift	*Cash*	*Marketable Securities*	*Non-Marketable Securities or Other Property*
More than $500,000 and gifts of art more than $20,000			- A copy of the signed qualified appraisal must be included with the return, not just the appraisal summary.

Most donor management systems (software) generate this substantiation document using the information recorded when the gift is made. Each organization should adopt a standard for how quickly this statement is sent to the donor following a gift. Most organizations use a 3 business day rule, with the outside standard being a 5 business day rule. The more quickly this statement is sent, the better. It is natural for a donor to wonder whether the charity received the gift, and receiving the substantiation letter quickly not only affirms receipt but reflects the professionalism and attention to detail of the charity.

Some charities do not send substantiation letters until after the end of the year on the theory that donors will lose them if sent earlier. This is not recommended. The charity will receive more calls from donors wondering whether the gift is received, or whether the substantiation letter got lost than there will be calls from donors who have lost the document.

2. Substantiation of Deferred Gifts

Substantiation of deferred gifts is not always required, in part because gift commitments are not completed gifts (and substantiation is required only for completed gifts) and in part because the rules for irrevocable Legacy gifts vary. For irrevocable Legacy gifts, rules vary as shown in Table 14.

TABLE 14
SUMMARY OF GIFT TYPES REQUIRING SUBSTANTIATION

Gift Form	*Substantiation Required*
Outright Cash Gifts	Yes
Outright Non-Cash Gifts	Yes
Charitable Remainder Trusts	No
Charitable Lead Trust	No
Pooled Income Fund	Yes (the value of the income interest does not have to be stated on the substantiation documents)
Charitable Gift Annuity	Yes (the value of the annuity interest does not have to be stated on the substantiation document)
Retained Life Interest	Not addressed in regulations; substantiation recommended
Qualified Conservation Easement	Yes, in addition the donor must maintain records of the property value before and after the easement

3. Personal Acknowledgement

In addition to the document required by law, your organization should have written policies governing personal acknowledgements of gifts at certain gift levels. See the examples in Table 15.

TABLE 15
SAMPLE PERSONAL ACKNOWLEDGEMENT STANDARDS

Gift Amount	*Action*
Under $250	Standard gift substantiation; if possible, write a personal note on the bottom of the statement
$250 - $499	Personal note or sticky note on the substantiation document addressed to the donor saying “thank you”!
$500 -$2,499	Separate note from the Director of Development acknowledging the gift and thanking the donor for the gift. If it is a first gift, or a dramatic change in value, or the fifth/tenth/fifteenth/twentieth year of giving, or other personalization that acknowledge the organization recognizes the donor’s role.
$2,500 - $9,999	Personal note from the Executive Director, again as personal as possible acknowledging the
$10,000 and up	Personal note from the Executive Director, again as personal as possible, acknowledging the gift, and a call from a member of the Board or volunteer.
Deferred gift commitment such as bequest, beneficiary designation of IRA, beneficiary designation of Insurance policy	- Personal note from the development director and/or CEO acknowledging the gift and its lasting impact on the entity - Invitation to become a member of the Legacy Society - Mailing list for information on endowment and deferred gifts - Invitation to an annual event honoring Legacy Society members

E. Recognition and Celebration of Donors

While acknowledgement is a private expression of appreciation directed to the donor, recognition is a public acknowledgment of the donor’s contribution

1. Recognition of Current Donors

Recognizing annual donors is not only an important element of stewardship, but it is a process that helps tie donors to the organization. Current donors are generally recognized in a variety of ways that include:

- Recognition in an annual report, newsletter, or magazine by giving level
- Online recognition by giving level
- A luncheon to honor top donors
- An event to honor top donors

Recognition is also a way to tie current giving to deferred giving. Consider these options that expand a donor’s thinking about their partnership and commitment to your organization.

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- On the annual donor listing (in all the places it occurs) consider adding an asterisk to the name for those annual donors who are also Legacy donors. As you have more and more Legacy donors it will encourage others to consider doing both It is also a great way to distinguish between the two types of gifts and encourage donors to do both.

- Celebrate your multi-year givers by recognizing them with a separate listing, an asterisk, or by including them in a recognition club for their long-term giving. Long-term donors at all giving levels are some of the most likely to make Legacy gifts.

- Invite long-term donors to join the Legacy celebration events and encourage them - as long-term investors to the organization - to make a Legacy gift for the future.

2. Recognition of Deferred Donors

It is critically important to recognize deferred gift donors. Most of these gifts are revocable, meaning that these donors can remove your organization from their estate plans if they no longer feel connected or no longer feel their gift is appreciated or important to your organization's long-term success.

- Celebrate and recognize donors who have made a commitment to Create Your Jewish Legacy by using their stories to encourage others to give.

- Invite them to become a member of your Legacy Society to recognize Legacy donors.

- List their names in your annual report, on your website, or other places in which you publicly recognize your donors.

- Use their stories in your newsletters and on your website. Let them tell you and others why they have made a commitment to your organization, and what they hope their gifts will accomplish.

F. Regular Reporting on the Impact of Gifts

Charities often overlook the value of reporting to donors. Donors are motivated by the work and impact of the charity. The Center on Philanthropy at Indiana University conducts an ongoing study of donor behavior. In the 2010 report on high net worth philanthropy (donors with more than $1 million in assets excluding their homes and income of more than $200,000), the top three reasons cited for giving were as follows:

- Moved at how the gift can make a difference (72.4%)
- Feel financially secure (71.2%)
- Giving to an organization that is efficient (71%)

1. Personal Reporting to Donors

Prepare an annual report on endowment that details:

- The growth in the number of funds and total value;
- The investment returns compared to market indices for the one year, five year, and ten year periods; and
- The impact of the funds in carrying out the charity's mission in the five sectors detailed above.

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Distribute this report to endowment donors with a note thanking them for either their current gifts to endowment or their future commitments to endowment.

In addition, donors with small funds should be pooled within a sector and should receive a report on the impact of that sector on an annual basis. Donors with larger funds should receive a report on their fund, not only the growth in underlying funds but on the impact of the distributions made from those funds. This may encourage additional gifts to endowment, or encourage donors to either increase their gift commitments or begin to think about increasing their gift to achieve a particular purpose or goal.

Many donors to endowment have made commitments, and the funds are not yet in place. Send those donors an annual report of the endowment and its impact.

2. Public Reporting About Endowment

Many of the organization's donors are prospects for endowment, so positioning the endowment and its impact in the public eye is extremely important. Many individuals do not understand the role of endowment, or may have negative perceptions of endowment based on prior experiences.

- Include the endowment report (described above) in the organization's annual report;
- Describe how the endowment functions, how decisions are made, and how the spending policy is set;
- Tell donors how to create new funds, including minimums for specific purposes; and
- Create a separate one-page report to use on donor visits and calls.

Donors who believe the charity is focused on strong investment, careful allocation, and clear impact aligned with the charity's mission will be more likely to invest.

XI. Final Thoughts

Permanent funds are critical to the long-term success of community foundation. Success requires the input and engagement of the whole team: board, executive staff, financial staff, program staff, development staff, and marketing staff. Working together to bring donors into partnership with the foundation will transform the foundation's work and as a result will transform the community. Get started today, use discipline, and the foundation's assets will steadily grow.