

NONPROFIT RESERVES & ENDOWMENTS: MANAGING THEM WISELY

Please join the conversation!
Use the hashtag #NPQEndowments.



MEMBERSHIP & LOGISTICS

- Welcome to all Leading Edge Members!
- Learn more about membership at nonprofitquarterly.org.
- Today's webinar is being recorded. You will receive the slides and recording in two days.
- We rely on your feedback to shape our programming. Take the survey that pops up immediately following the webinar. Thank you!
- The social media hashtag for this webinar is #NPQEndowments.

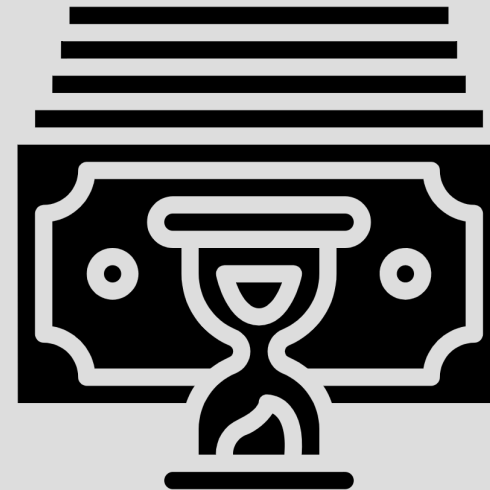
ABOUT PAUL SUSSMAN

- An independent consultant to nonprofit organizations, small businesses, and philanthropies
- Formerly:
 - CFO, Tenderloin Neighborhood Development Corp.
(assets of over \$750 million)
 - Founding President, Northern California Community Loan Fund
(pioneering social investment institution)
- Currently:
 - Board Member, Community Music Center



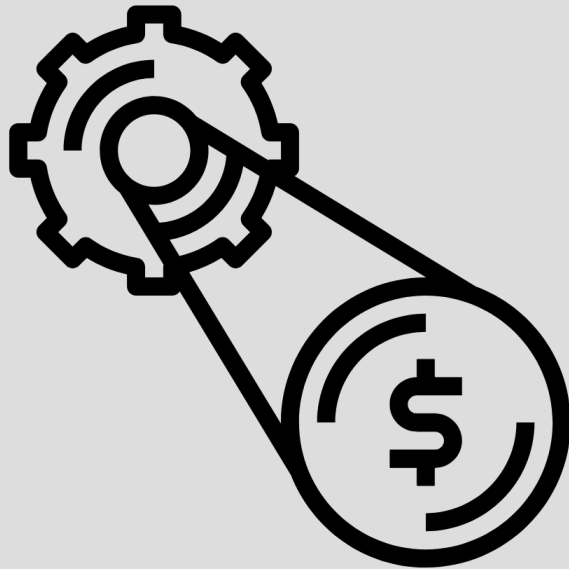
TODAY'S DISCUSSION

1. Problems and opportunities:
What are you solving for?
2. What is an endowment?
3. Building an endowment
4. Managing an endowment



PROBLEMS & OPPORTUNITIES

PROBLEMS & OPPORTUNITIES



- Cash Flow Management
- Stable Operating Funding
- Investment
- Risk Buffer
- Capital Needs
- Long-Term Preservation

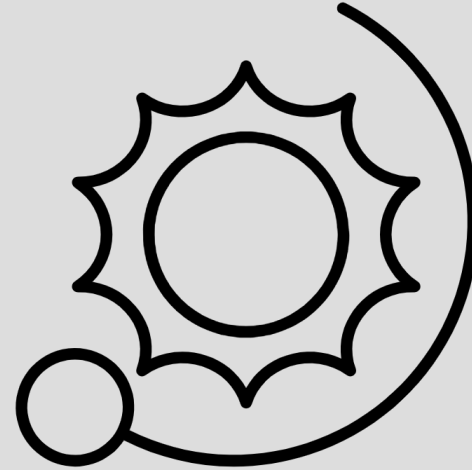
FOR EACH PROBLEM/OPPORTUNITY, 7 QUESTIONS:

1. Target: How much is needed?
2. Timing: How much is needed when?
3. Liquidity: What is the likely lead time for use?
4. Risk: How much over what period?
5. Investment: What asset allocation and investments are appropriate?
6. Management: Who makes which decisions re: investment and use?
7. Segmentation: Co-mingling/overlap/segmenting your funds?

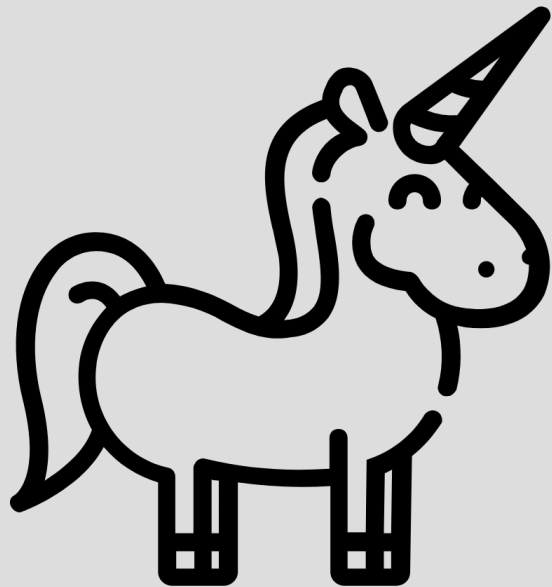
WHAT IS AN ENDOWMENT?

WHAT IS (AND IS NOT) AN ENDOWMENT?

- Legal vs. common-sense understandings
- Long term investment horizon (*though may allow for short term responses*)
- Use of earnings and preservation of principal (*with exceptions*)
- Not necessarily permanently restricted gift
- Invested and used intentionally through formal processes



MISCONCEPTIONS & MYTHS



- None of the principal can ever be touched. *In fact, it depends.*
- We have to distribute a minimum amount like a foundation. *No.*
- 5% annual cash throw off is a good rule of thumb. *Not anymore.*
- An endowment will cannibalize our annual fund. *Not necessarily.*
- I can't use my endowment in an emergency. *Not necessarily.*

TYPES OF ENDOWMENT FUNDS

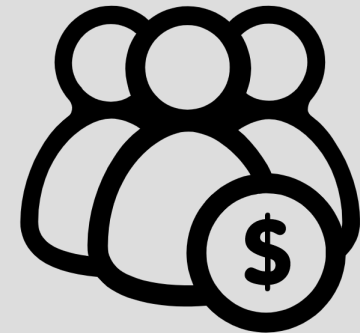
- **Unrestricted** endowment: can be spent, saved, invested and distributed at organization's discretion
- **Term** endowment: principal can be expended after a period of time or a defined event
- **Quasi**-endowment: formally designated by board (but not by donor)
- **Restricted** endowment: principal held in perpetuity; earnings can be expended
 - Sometimes specific use of earnings is also restricted
 - Specific use can be fungible or not

BUILDING AN ENDOWMENT

SHOULD YOUR ORGANIZATION BUILD ONE?

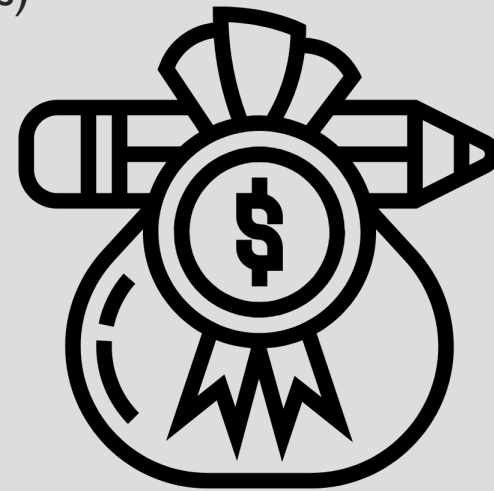
- Do you have the capacity?
 - Internal skills, systems, people, culture
 - Donor base to support it
- Opportunity cost of raising and managing it
- Current spend on mission vs. \$ locked up in an endowment
- Intergenerational equity
- Time value of money if you don't/can't reinvest & grow it
- Synergy or cannibalization re: annual fundraising

***“You don’t need my
money; you’ve got an
endowment!”***



SOURCES FOR BUILDING AN ENDOWMENT

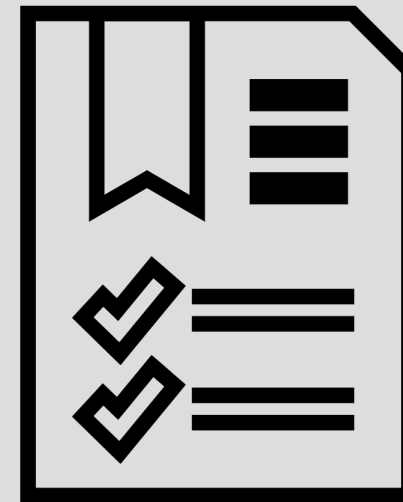
- Transfer of retained surplus
- Set-aside in annual budget
- Transfer windfall surplus (bequest, one-off transactions)
- Capital campaign



MANAGING AN ENDOWMENT

REGULATORY & COMPLIANCE

- Recording, tracking, and complying with types of restrictions
- GAAP audit disclosure requirements
- Conflicts of interest
- Support or endowment corporations
- Fiduciary requirements (UPMIFA)



A BIT MORE ON UPMIFA

Uniform Prudent Management of Institutional Funds Act

QUESTION: What is a “fiduciary”?

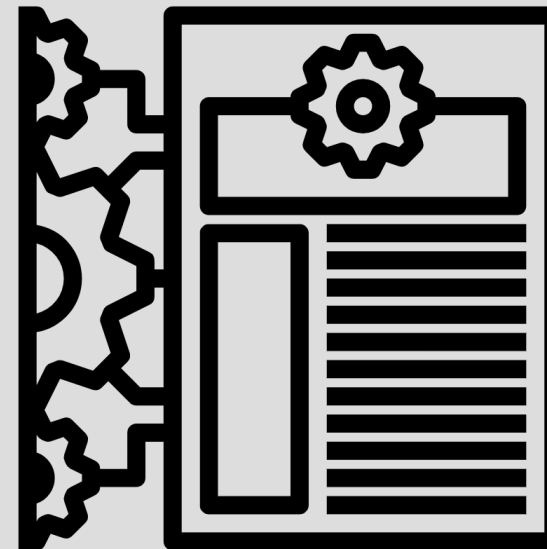
A fiduciary is someone who holds a legal or ethical relationship of trust and prudently takes care of money for another person or entity.

QUESTION: What is a “prudent” person?

A prudent person acts “in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances.” UPMIFA provides checklists for what a prudent person must consider re: investing, spending, and delegating.

ELEMENTS OF AN INVESTMENT POLICY (1 OF 2)

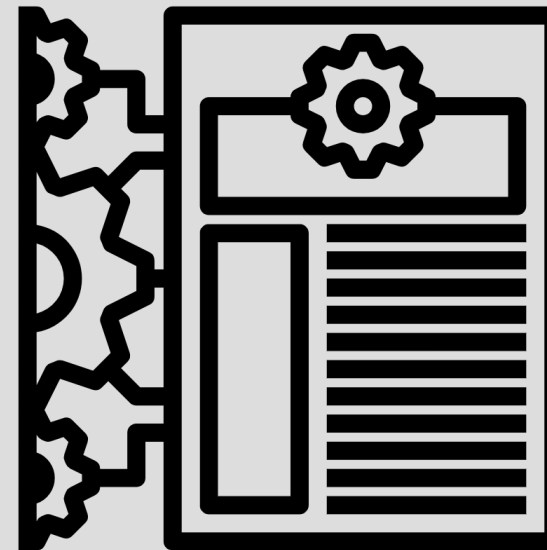
- Overall Objectives
- Cash Flow Expectations & Payout
- Investment Parameters
 - Time Horizon
 - Diversification
 - Risk
 - Permitted & Prohibited Investments
 - Screens & Socially Responsible Guidelines
 - Cost
- Asset Allocation



ELEMENTS OF AN INVESTMENT POLICY

(2 OF 2)

- Performance Evaluation & Benchmarking
- Selection/Replacement of Advisor/Manager
- Decision-making Authority of Advisor/Manager
- Responsibilities & Roles:
 - Board of Directors
 - Committee(s)
 - Staff (Executive Director, Finance Director, etc.)
 - Advisor/Manager



A HIERARCHY OF INVESTMENT DECISIONS



TAPPING RESERVES & ENDOWMENTS IN A CRISIS



- Continuously re-project cash flow.
- Be clear about your restriction record-keeping.
- Be clear about restricted corpus vs. accumulated but undistributed earnings.
- Consider asking donors to remove or change restrictions.
- Can you borrow, secured by your endowment?
- What's your bottom line for running down your reserves?
It should not be \$0.

PLEASE COMPLETE YOUR BRIEF
EVALUATION NOW

Thank you for joining us!

