

Funding an Endowment:
An Analysis of the
Jewish Community Library

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I. Executive Summary

Endowments create the opportunity for organizations to secure long-term financial and programmatic goals. They help to ensure the sustainability of the organization by placing funds aside and creating self-sustaining, self-generating funds for the institution. Endowments are often a part of a fund development plan but only after an organization has secured major donors and ongoing support for its operations. The Jewish Community Library (JCL or Library), a program of the Bureau of Jewish Education (BJE), has fund development goals that are supported from a variety of sources. Through a recent appraisal of their financial support, it has been suggested that the Library and its fundraising entity, Friends of the Jewish Community Library (Friends), begin the development of an endowment. The task of this paper is to determine the Library's need for and capacity to create an endowment.

Through research on endowments, personal interviews with Library staff and review of the Library's financial structure, analysis was done to determine whether or not the Library, with the help of Friends, should create an endowment. Research indicates that nonprofits can benefit significantly from endowment funds and it is worth the pursuit for an institution if they have organizational capacity, a large enough donor pool, and strategic vision for their programs as well as for their fundraising efforts.

Organizational capacity is determined by clear, articulated vision and mission, board and staff commitment to the creation of an endowment, the pool of donors, and financial plans. While the BJE has a clear mission and vision, the Library does not have its own strategic vision. They operate as a program of the BJE, helping the BJE to further its mission. Library staff is somewhat hesitant to take on significant fundraising duties, as it is not their expertise or necessarily their interest, while Friends is an entirely volunteer run organization with no staff to

commit to the process. While access to donor profiles from the Library and Friends were not available, there are a number of studies within the Jewish community on giving patterns. These giving patterns suggest funding for an endowment for the Library could be difficult. Library staff suggests otherwise. Finally, the Library, with coordination from Friends, is in the beginning stages of creating its own fund development plan with the use of a fund raising consultant. These plans are in the early stages but the Library and Friends are looking to create a stronger fund development initiative for the near future.

One recommendation, based on the above information and criteria for organizational capacity, suggests that the Library could establish an endowment with a lot of work towards the development of a mission and vision, a strong fund development plan, commitment from board members, and a strong case statement. Additionally, another recommendation suggests that the BJE has stronger organizational capacity to pursue an endowment. The BJE would be responsible for the coordination and solicitation of funds as well as the management of the endowment. In either case, the Library, Friends and the BJE benefits by securing the financial sustainability of the Library.

II. Background

Bureau of Jewish Education

The Bureau of Jewish Education (BJE) is a nonprofit 501(c)3 with the mission to create vibrant, effective, and engaging Jewish learning throughout the San Francisco Bay Area. Since its founding in 1854, the BJE has been providing services to the local Jewish community, teaching hundreds of students and training educators throughout the community.

The BJE operates on a \$5.3 million annual budget with money coming from the local Jewish Community Federation (JCF), private foundations and individual donors (See Appendix Graph 1: Income by Source). The budget supports a staff of roughly 35 individuals who span nine different educational initiatives and all internal administrative functions.

Jewish Community Library

The Jewish Community Library (JCL or Library) first opened its doors as a full-service library in 1976. The Library is a program of the BJE, furthering the BJE's mission of creating opportunities for Jewish learning. The Library houses Northern California's largest public collection of Jewish books: more than 20,000 titles. The Library presents a remarkable range of programs for adults, children and families, all free to the public. JCL is a place for people of all ages and interest to explore, experience and benefit from the riches of Jewish learning and Jewish life.

As the Library is a program of the BJE, its operational costs are a part of the overall BJE budget (See Appendix Graph 2: Expenditures by Program). But, unlike most BJE programs, the Library has a diverse, complex funding structure that includes operating costs from the BJE

budget, large grants, individual donors and major philanthropic gifts alongside its own fundraising organization, Friends of the Jewish Community Library.

Friends of the Jewish Community Library

Friends of the Jewish Community Library (Friends) operates as a private 501(c)3 with its sole mission being to raise money for JCL. Friends is operated by a group of volunteers who are interested in ensuring the ongoing success and the sustainability of the Library. They raise 15.6% of the Library budget each year. This money comes from individual donors through a campaign operated by Friends and the Library, separate from any campaign that the BJE would run. Additionally, Friends oversees the allocations of funds from a donor advised account that is housed at the Jewish Community Federation (JCF). The money at JCF is used to supplement the amount Friends raises through their annual campaign. Each year the amount distributed from the funds fluctuates according to the success of the campaign and the needs of the Library.

III. Description of the Questions Analyzed

The former Executive Director of the BJE recommended that JCL consider developing an endowment to ensure the long-term sustainability of the Library's operations. In the recommendation, it is suggested that raising funds for the operating budget of the Library, which is funded through foundation grants, Friends, and the Jewish Community Federation, be shifted from the Library staff's responsibility to the BJE administrative staff's responsibility. By doing so, Library staff time would be freed up for cultivation of donors and the creation and management of an endowment. Our research, while keeping this shift in mind, is focused more intently on the following questions:

1. Is an endowment for JCL needed? What would an endowment do for JCL? If it is not needed, what are the alternatives that can be explored? What other funding sources have not been explored that may be helpful in creating sustainable support?
2. If an endowment is needed, is it feasible? Since Friends does not have any professional staff, who would be responsible for helping to create the endowment? How much JCL staff time would need to be dedicated to helping create an endowment? Are there large donors out there who could help jump-start an endowment? Is the endowment housed through Friends, through the BJE or through a third agency (Jewish Community Federation)?

IV. Research

A. What is an endowment and what are the benefits to an organization?

Definition

Endowment is a technical term that is often used in a general sense to refer to various types of endowment funds. The American Institute of Certified Public Accountants (AICPA) defines endowment as “an established fund of cash, securities, or other assets to provide income for the maintenance of a not-for-profit organization ... generally established by donor-restricted gifts and bequests” (as cited in Bowman, 2007, p. 271). Broadly defined, an endowment can consist of restricted and unrestricted assets managed with the intent of providing a steady source of income over the long-term. In order to understand the purpose and the uses of an endowment, it is critical to understand the differences in the types of endowments.

Types of Endowment

Frequently the term “endowment” is used in a very broad sense, which masks the complexities of how various types of endowments are formed and used. Equity in a nonprofit is divided into three categories: permanently restricted, temporarily restricted, and unrestricted. These categories of equity correspond to the three types of endowments: true endowments, term endowments, and quasi-endowments. True endowments represent permanently restricted gifts. Term endowments correspond to temporarily restricted gifts. Quasi-endowments represent unrestricted gifts (Bowman, 2007).

1. True Endowment

A true endowment, also referred to as a permanent endowment, consists of a sum of money “restricted in a written agreement *by the donor* or in response to a solicitation that

promised to use the gift as an endowment and may not be used up, expended or otherwise exhausted” (Bowman, 2007, p. 275). In order for a gift to be a true endowment it must meet the following criteria:

- ✓ The donor restricts the gift.
- ✓ The principal of the gift cannot be invaded (spent) and must be retained in perpetuity.
- ✓ Only the earnings from the investment can be spent.

The donor restricts the use of the gift at the time the gift is made. Typically, these funds are established through bequests or wills. A single donor (or family) establishes a “true” endowment. These gifts can be restricted for a specific use, such as for a staff position, or can be restricted more broadly, such as for a program. Some examples of restricted endowments include program endowments, named memorial endowments, scholarship endowments, endowment for a staff chair or position, facilities endowment, and technology upgrade endowment (Schumacher and Seiler, 2003, p. 5). Restricted gifts can be reprogrammed to another purpose but only with the consent of the donor or court approval. The Uniform Management of Institutional Funds Act (UMIFA) adopted by California governs deviations from the expressed stipulations of a gift agreement (Bowman, 2007, p. 275).¹

Often, an endowment fund consists of the pooled assets of several true endowments, commingling the funds for purposes of investing and accounting efficiencies. The endowments maintain their separate identity, but benefit from being a part of a larger, more diversified investment portfolio (Kurtz, n.d.). Income from the endowed assets may be narrowly defined as the dividends, interest, and rental income, or more broadly defined to include realized or

¹ “The [UMIFA] legislation prescribes the specific investment authority, the authority of governing boards to delegate day-to-day investment management, the standards of care and prudence in the operation of a non-profit institution, and the release of donor-specified restrictions on the use or investment of endowed gifts under certain circumstances” (University of California, 2004)

unrealized capital gain, depending on state law and the governing document for the funds (Miree, 2003).

2. Term Endowment

A term endowment “functions as a true endowment until a specified event occurs, a specific period of time elapses, or a predetermined date is reached, at which time the principal may be spent” (Schumacher, 2003, p. 104). The income from the endowment may be restricted, usually by the donor, or unrestricted, meaning the organization, not the donor, specifies the use. In order for a gift to be a term endowment it must meet the following criteria:

- ✓ The gifts can be restricted (by the donor) or unrestricted (set aside by the organization).
- ✓ The principal must remain in tact until the term of the endowment is reached.
- ✓ Only the earnings from the investment can be spent, until the term has been reached.
- ✓ Once the term has been satisfied, the principal may be spent.

Term endowments are very similar to true endowments, but they only exist for a limited period of time. For example, a donor may create a term endowment by specifying that the investment be used for a period of ten years to maintain a building. After the ten-year period has expired, the organization is free to use the principal as it sees fit. Alternatively, a donor may contribute funds to amortize a bond issue and tie the term to the life of the bonds. After the expiration of the time, the board may use the principal or allocate it to a quasi-endowment (Miree, 2003).

3. Quasi-endowment

Quasi-endowments, or funds functioning as an endowment, are “accumulated gifts or revenues that the board elects to put into an endowment” (Bowman, 2007, p. 275). These funds

are considered unrestricted in accounting terms, because the board has chosen to restrict the use of the funds, not the donor. Furthermore, a quasi-endowment is not bound by the same rules as true or term endowments because the organization, rather than a donor, has created the restrictions on the funds. Thus, the board can change the restrictions in order to suit the needs of the organization. In a quasi-endowment, the board determines if and when the principal will be used. What sets a quasi-endowment apart from other operating funds, such as working capital and operating reserves, is the intention to treat the fund as permanent capital in the absence of the legal obligation to do so. In order for a gift to be a quasi-endowment it must meet the following criteria:

- ✓ The board restricts the use of the gift by putting it into an endowment (the funds are technically considered unrestricted).
- ✓ The board determines if the principal will be spent and at what rate.
- ✓ The board determines the payout rate or the amount drawn from the endowment.

Again, similar to a true endowment, the funds can be commingled with other endowments to create a more diverse portfolio while still accounting for the funds separately. Board-restricted funds may include unrestricted bequests or planned gifts received by the nonprofit, surplus funds available at year-end (that are not needed for operating reserves), or funds resulting from the sale of an asset. Normally, the board will establish procedures to govern the distribution of income and the withdrawal of the principal (Miree, 2003).

Endowment Structures

Endowment funds can be housed in a variety of different ways. There are four basic structures an organization can choose from to manage and hold an endowment: a segregated fund

held by the organization, a separate and independent foundation established by the organization specifically as a supporting agency, a designated fund held by a community foundation, or a designated fund held by a national umbrella organization. The choice of the structure depends on the goals of the nonprofit in creating the endowment, the size of the endowed funds, and the resources available to manage the endowment (Miree, 2003).

Funding Vehicles used for Endowment

It is important to differentiate between an endowment, which is a fund of money, and the methods used to practice philanthropy such as a bequest, which is a funding vehicle. The most common funding vehicles used to build endowments are planned giving programs. Panepento (2001-2007) notes, “about 80 percent of endowment donations nationally come through wills and bequests.” Planned giving includes several types of funding vehicles including charitable remainder trust, life insurance, and wills or bequests. Often, the money from these planned gifts is used to create or build endowment. Some organizations have adopted a policy stating that all gifts of a planned nature will go directly into the endowment, unless specified otherwise by the donor (J. Campbell, personal communication, March 9, 2007). In adopting this type of policy, the organization engages the donor by demonstrating that their gift will have a lasting effect on the agency and its programs (Schmeling, 1996). A policy of this nature would create a quasi-endowment since the organization is restricting the use of these gifts. Schmeling (1996) argues that planned giving is the most cost-effective and efficient way to build sizable endowment funds. However, other funding vehicles can be used to build an endowment such as a direct mail campaign, a special event, and other creative approaches.

Benefits of Endowment

Endowments are a sign of a fiscally responsible, well-prepared and forward-looking nonprofit organization. The funding environment for nonprofits can be very volatile and unstable. Endowments minimize this volatility by providing the organization with a steady stream of revenue that, depending on the type of endowment, may be adjusted to meet changing demands of the environment. Financial stability is just one of the many ways that an organization benefits from an endowment. Some of the other benefits of are as follows.

- Endowments bring more resources to fulfill an organization's mission (Draimin and Morrisey, 2005).
- Endowments diversify income and reduce dependency (Draimin and Morrisey, 2005).
- Endowment can be used to underwrite programs that have not been funded, support budgets when there are shortfalls, enable management to continue to move the institution forward, even in difficult financial times, and provide a safety net when an unexpected financial crisis occurs. Income from endowment, however, is in the control of the organization; unrestricted endowment, in particular, becomes bedrock of security and power for the organization (Schumacher & Seiler, 2003).
- Endowment sends a positive message to donors: *the organization has achieved a key measure of financial stability and intends to carry out its mission for generations to come*. When a donor sees a strong endowment, he or she understands that the organization will continue to exist for a long time (Schumacher & Seiler, 2003).
- Endowment can create a sense of permanence that benefits the organization by strengthening the institution and its stakeholders, enabling increased attention to

achieving long-range program objectives, and flexibility in working towards those goals (Draimin and Morrisey, 2005).

- With income from endowment, organizations can take some risks. Endowed institutions can fund new programs, start new initiatives, and reach out to provide more services (Schumacher & Seiler, 2003).
- Endowments promote long term organizational financial planning (Draimin and Morrisey, 2005).
- Endowments create an opportunity for current funders to increase their support in a highly strategic way (Draimin and Morrisey, 2005).

Besides these advantages, creating an endowment has some disadvantages. The process of building endowment requires commitment from the entire nonprofit organization while managing the endowment requires significant organizational and individual skills and commitment. In addition, financial and legal expertise are required to manage the endowment fund (if managed by the organization) and to provide information to donors or their advisors regarding the technicalities of endowment giving and the tax advantages available to donors. Furthermore, readiness of the organization is another important factor in creating of an endowment. This aspect will be discussed further in Section V. C. Organizational Capacity.

Endowment Payout – What to Expect

Payout or payout rate refers to “the proportion of an endowment that can be spent without eroding the value of the endowment in inflation-adjusted terms,” (Bowman, 2007, p. 279). A payout rate can be established by the donor, as in the case of a true endowment, or can be set by

the board. In order to maintain the endowment’s principal in perpetuity, the organization should use a payout formula that “caps spending from the endowment at a level below the anticipated long-term rate of total return minus the anticipated rate of inflation” (Bowman, 2007, p. 280). Typically the payout rate for an endowment is around 5 percent. If an organization receives 5 percent payout from the endowment and inflation is about 3 percent, then the endowment must earn about 8 or 9 percent to break even (Panepento, 2001-2007). Thus, with a payout rate of 5 percent, an organization must have an endowment of \$1.4 million in order to receive \$70,000 in operating funds from an endowment earning between 8 and 9 percent (see table 2 for examples). Although the board may adjust the payout rate, the organization should establish a policy regarding the payout formula to ensure that spending does not outpace the earnings of the investment.

Table 1: Endowment Payout

Size of Endowment	Payout Rate	Payout Amount
\$100,000	5%	\$5,000
\$1,000,000	5%	\$50,000
\$1,400,000	5%	\$70,000

Source: created by research group

Unless an organization is able to find volunteers to help manage the endowment, the organization will have money management expenses. These expenses can vary depending on the fees charged by different institutions. The average commercially available domestic stock mutual fund charges 1.43 percent in expenses (Bowman, 2007, p. 280). While this may not seem like a large portion, it can impact the amount of growth. Therefore, an organization is wise to compare the management costs associated with housing the fund at an institution or foundation.

B. Who gives to endowments and why do they give?

Individuals

Because of the faith-based orientation of the Library, research on individual giving was done only on the Jewish community. Roughly 80 percent of all Jewish community members in the West Bay Area (San Francisco, the Peninsula, Marin and Sonoma Counties) give at least \$100 to charity each year (Phillips, 2005). Of these donors, only 39 percent give to Jewish community organizations while 61 percent gave only to non-Jewish organizations (Phillips, 2005). Jewish organizations are competing with secular organizations for funding from within their own community. While most individuals state “they could give two or three times more to Jewish philanthropies if they felt the need. Most of them do not feel the need” (Tobin, 2001).

Nationally, the Jewish community is responsible for 22 percent of all mega-gifts, defined as gifts of \$10 million or more in a single gift, representing roughly \$5.3 billion given between 1995-2000. Yet, only 9.6 percent of this money went to Jewish organizations (Tobin, 2002). And whereas arts, culture and humanities organizations are the largest recipients of gifts, including among Jewish givers, only 1 of 93 gifts was given to a Jewish organization.

There is a general trend among donors to want to understand how their money is used and how it impacted (or will impact) the community. This trend is also prevalent in the Jewish community. The latest Jewish community population study examined philanthropic trends within the Jewish community. It was noted, “Interest in designated giving has less to do with a desire for direct decision making than for assurances of efficiency and efficaciousness. In other words, evidence that the money was well spent and had an impact” (Phillips, 2005). Furthermore, the study showed that among individuals who contribute to a charitable cause, who

value how their contribution is making an impact, 64 percent would like to designate a particulate service or program their gift would be used for (see table 1) (Phillips, 2005).

Table 2: Donor Preference in Gift-Giving

In deciding to give to a charitable cause, how important is it that you can designate which particular services or programs your gift will be used for? Is it...			
In deciding to give to a charitable cause, how important is it that you can see for yourself how your contribution is making an impact? Is it...	Very important	Somewhat Important	Not Important
Very important	64%	36%	16%
Somewhat Important	34%	50%	52%
Not Important	2%	14%	32%
Total	100%	100%	100%

Source: Phillips, 2005

Of those who do choose to give to Jewish organizations, there are a number of popular and unpopular giving areas. The Jewish community study collected data on areas of interest for givers, asking them to determine how interested or uninterested they were in funding that particular area. While Jewish arts and culture, the category the Library would fall under, was not the lowest scoring content area, it was also not the highest. On a scale of 4, with 4 being the most interesting funding area and 1 being the least interesting funding area, arts and culture scored a very mediocre 2.8. Social justice, persecuted or distressed Jews and the elderly all scored higher.

“It is hard to evoke continued passion for the funding of day-to-day operations, the ordinary tasks” (Tobin, 2001). An endowment creates sustainability for the funding of these ordinary tasks. An endowment requires major donors who are comfortable with money being put away and not used to immediately fund a program, project or staff members. Giving to an

endowment requires donors to give up some control over which programs they can have an impact. The Jewish community study reveals that local donors may be quite uncomfortable with these statements. Additionally, there is a declining desire to give to Jewish organizations regardless of their focus. “The proportion of giving to Jewish philanthropies has declined precipitously for many major donors, down from 70 percent to 30 percent or less” (Tobin, 2001).

As an overall strategy, endowment gifts should come from major gifts. Hodge (2003) suggests that 20 percent of the gifts should produce 80 percent of the dollars. Thus, the total amount raised should consist of a few large gifts rather than many small gifts. These major donors are generally sophisticated about the ways of giving and will want proof that the endowment is a good investment. The organization must be prepared to answer the tough questions of prospects regarding where the money is invested, what the expected return will be, and who is managing the investment. Prospects tend to think like investors and may request financial management information to see evidence of sound financial management and board oversight. Because frequently gifts to endowments involve negotiating a major or planned gift, more time must be spent with prospective donors to address their questions and demands than would be required for other types of solicitations (Schumacher & Seiler, 2003).

Why Individuals Give to Endowments

Individuals give gifts to endowments for many of the same reasons that they give to any other cause because they have a connection to the mission of the agency, they have the ability to give, and out of personal preferences and values. However, because of the uniqueness of endowments, there are some reasons why individuals give to endowments that differ from those

mentioned above. Schumacher and Seiler (2003, p.4) offer the following list of ten reasons why people give to endowments.

1. They believe in the cause, and they were asked to give.
2. They believe in the cause and have a link to it.
3. They believe in the asker.
4. They like the idea of perpetuity, that is, giving beyond their own life.
5. They are dedicated to the specific project or program with the organization that the endowment will fund.
6. Their business or industry will gain from the gift.
7. They like the idea that their gift will grow with sound investment and spending practices.
8. They are impressed with the investment advice and proposed management of the endowment.
9. They would rather give to your organization than to the government. In other words, they want the tax advantage.
10. They have a history of giving to endowment and understand the benefits.

Foundations

The research on foundation giving to endowments is limited primarily because most foundations do not give to endowments and the ones that do, do not give a substantial amount to endowments, relative to all foundation giving. When foundations provide grants for endowments they typically are in response to capital campaigns or challenge or matching grants.

Occasionally capital grants can be used to build an endowment, but typically these endowments are connected to a capital campaign for long-term building maintenance and upkeep. Some community and corporate foundations give challenge or matching gifts in order to boost philanthropic giving in a constituent segment (Newman, 2005). Below, Table 3 provides the most recent statistics regarding foundation giving to endowments nationally (Foundation Center,

2007). Even though the numbers seem small, the numbers may in fact be smaller than shown in this table because some grants were reported more than once due to having multiple purposes. In addition, the endowment gifts were listed under capital support and therefore were most likely granted in response to a capital campaign. The gifts listed under matching and challenge grants included all gifts of this nature and therefore do not represent solely endowment matching or challenge grants. Thus, even if we were to assume that all the gifts shown were granted for endowments, foundation giving to endowments represents 11.8 percent of all dollars granted and only 3.3 percent of all grants awarded.

Table 3: Distribution of Grants by Type of Support and Size of Foundation, circa 2005

Type of Support	100 Largest Foundations				1,054 Other Foundations			
	Dollar Amount	%	Number of Grants	%	Dollar Amount	%	Number of Grants	%
Endowments	\$311,305	3.4	293	0.7	\$224,119	3.1	561	0.6
Matching or Challenge	\$365,896	4.0	429	1.0	\$97,909	1.3	882	1.0
Total*	\$677,201	7.4	722	1.7	\$322,028	4.4	1443	1.6

* Some grants may have been counted more than once if the grant had multiple purposes. The totals are assuming that the information does not overlap.

Source: Foundation Center, 2007

Despite these statistics, overall foundation grants to endowments rose 7.5 percent from 2002 to 2005 (Foundation Center, 2007). Community foundations, in particular, have responded to the needs of nonprofits by providing matching or challenge grant programs to encourage nonprofits to build endowments at the community foundation. One example of this comes from

Colorado where the Rose Community Foundation collaborated with the Allied Jewish Federation of Colorado to create an “Endowment Challenge” program (Panepento, 2001-2007). The purpose of the program was to create incentive programs to help small nonprofits set up and manage their endowments. Under this program, the foundation agreed to match more than 50 percent of the endowment money raised by nonprofit groups that focus on Jewish issues. Panepento (2001-2007) goes on to cite foundations in Florida and Michigan that have created similar matching grant programs to help nonprofits build an endowment. While these programs present a creative step forward for foundations providing endowment gifts, unfortunately, our research did not find any such foundations operating locally.

Foundations typically want to see the money they grant to organizations used immediately so that results can be achieved and reported. Gifts to endowments do not produce immediate results and therefore it can be hard to quantify the impact to board members and other stakeholders of the foundation. While further research may result in finding foundations that grant money to endowments, given the low percentage of gifts that go toward endowments, that time would be better spent cultivating individual donors.

C. What organizational capacity is necessary to establish and maintain a successful endowment?

Clear Mission and Effective Programs

In order to earn the respect of its constituency and to attract donors, the organization should have a written strategic plan with a mission statement, goals and objectives and have successfully implemented programs to further their mission (Newman, 2005). If the organization still struggles to define their mission clearly or to develop effective programs, it will be difficult to convince donors to put their money in an endowment for the organization (Newman & Luckes, 1996). In addition, the value of the endowment has to be tied to the organization's goals and mission. It should be clear to the donors, staff and board how the endowment will strengthen the organization's mission and performance (Taylor, 2006). Important questions for the organization to ask are:

- ✓ Does the organization have a written strategic plan?
- ✓ Is the organization running effective programs?
- ✓ Does an endowment assist in the achievement of the organization's mission?

Existing Fundraising Program

Building an endowment is one of the last steps in a fund development process. Before an organization can go to this step, it needs an effective fundraising program in place that draws money from a variety of sources. The organization must have already cultivated donors and have a secure financial standing (Newman, 2005). An endowment is a long-term approach and should not be seen as a quick fix for financial problems. The organization should be able to cover their daily expenses through an already existing fundraising process with a strong annual

giving program in place (Newman & Luckes, 1996). If the organization does not already have a planned giving program, board and staff should learn about it and start the program by setting up their own planned gifts for the organization (Taylor, 2006). Important questions for the organization to ask are:

- ✓ Does the organization have a fund development plan?
- ✓ Does the organization have an annual giving program?
- ✓ Does the endowment program fit in the development plan?
- ✓ Does the organization understand its current liquidity needs?
- ✓ What is expected from the endowment?
- ✓ Is the organization able to launch a planned giving program?

Pool of Donors

Without an already existing donor pool, an endowment is difficult to build. Even though some foundations give money to endowments in form of matching grants, most of the money for an endowment will come from individual donors (Newman & Luckes, 1996). The organization needs a pool of existing and prospective donors, preferable older, wealthy people, who believe in the organization and can be easily approached for a solicitation. The organization has to be involved in an ongoing process of researching, identifying, cultivating and soliciting donors. Having an existing pool of donors also helps to attract more donors. People are more willing to give to organizations that can demonstrate their success at fundraising and financial stability. If the organization has an existing pool of donors, it might have encountered gifts in the form of real estates and learned how to handle more complicated forms of gifts. The learned experience

will enable the organization to solicit major gifts in different forms (Newman, 2005). Important questions for the organization to ask are:

- ✓ Does the organization have an existing donor pool?
- ✓ Has the organization obtained major gifts from donors?
- ✓ How important is the endowment for donors?
- ✓ How can donors feel connected to the endowment program?
- ✓ Are there other sources (in addition to individuals) to raise money for the endowment?

Board and Staff Commitment

The board of directors and the key staff must support and understand the purpose of building an endowment. Board members should be actively involved in the endowment building process by volunteering time, giving gifts, managing the budget, approaching donors and making the endowment a priority for the organization. Staff and the board have to understand that endowment building is a long-term commitment, which requires consistent effort and involvement. Leaders in the organization have to be knowledgeable, stable, and available to support and lead the endowment process. If the organization is going to manage the endowment, then a financial officer or fund development expert is necessary to handle the legal and accounting complexities of the endowment. Training has to be provided to enable and educate staff and board members. In order to have a successful endowment program, members of the organization need to be excited about the process and willing and able to invest the time and effort it takes to sustain this kind of long-term fundraising (Newman, 2005). Important questions for the organization to ask are:

- ✓ Are the board, staff, and leaders of the organization committed to the endowment plan?
- ✓ How important is the endowment for the organization?
- ✓ Does the organization have the capacity or access to the expertise to manage an endowment effectively?

Assessment Tools

The Appendix contains two tables that can be used to measure the organizational readiness to create an endowment. Ideally, a group consisting of board members, leaders of the organization, and key staff should complete these assessment tests together.

V. Analysis

A. Current Endowment

Bureau of Jewish Education

BJE does not have an endowment established. However, the organization has an opportunity to create an endowment, since it recently obtained several large gifts from donors who are committed to the organization, including some bequests.

BJE does have an established planned giving program, although it is relatively new. Although BJE did not formally seek to receive gifts under its planned giving program, it received two unsolicited planned gifts in recent years. The organization aims to further its planned giving program and launch a more formalized campaign

Jewish Community Library

Currently, the JCL does not have an endowment established. Since 1991, the JCL has been benefiting annually from a donor-advised fund established by the Friends (explained below). There have been years where no money has been withdrawn from the donor-advised fund. Currently, the fund is used to cover operating expenses when the annual fundraising campaign of the Friends falls short of its goal.

Friends of the Jewish Community Library

In 1991, an individual left a bequest to the Friends to benefit the JCL in the amount of about \$120,000. After much discussion, the Friends board decided to create a donor-advised fund in the Jewish Community Federation (JCF) Endowment Fund. At first, the Friends board determined that the money should remain in the fund so that the assets would increase, almost

like a quasi-endowment. After a few years, the board decided that the money would be distributed to JCL for special projects, similar to grants. Eventually, the needs of the JCL outpaced the fundraising effort and the fund began to be used for operating expenses in years when the Friends did not meet the campaign goal. Annually, the Friends raise about \$70,000 and when this goal is not met, money is withdrawn from the fund to cover the remainder. Therefore, payout from the donor-advised fund has not been consistent but has fluctuated with the Friends' vision for the fund and the needs of the Library. In 2005, the earnings on the investment were about 7 percent and the payout was almost 19 percent of the total fund (J. Schwartz, personal communication, March 16, 2007).

B. Donor Patterns

Patterns in giving within the Jewish community dictate the Library's ability to create an endowment. Does the Jewish community have deep enough pockets? Does the Jewish community have an interest in funding the Library and its services? Are their donors who are interested in giving to an endowment? While donor profiles of the Library, Friends and the BJE were not readily available, information on Jewish giving was presented in the Research Section IV. Given that the Library was scored a 2.8 on a scale of 1 to 4 of how interested the Jewish community is in funding the area of arts and culture, creating an endowment for the Library with money from Jewish donors seems like an uphill battle.

However, in spite of the trends in giving in the Jewish community, the Library may have an opportunity to receive large gifts from several of its major donors (J. Schwartz, personal communication, March 16, 2007). The Library has a great public face and committed major donors that can contribute funds to start an endowment. In addition, Friends has been successful

in the past at securing at least one major gift over \$100,000. Yet, some of the current major contributors to the library expressed concerns about giving to an endowment. According to Mr. Schwartz (personal communication, March 16, 2007), some of the donors feel that an endowment benefits the banks more than the organization because the money is held in an account and very little is used for operating expenses. Thus, in order to raise funds successfully, the endowment fundraising strategy should address these obstacles by clearly communicating to donors the purpose and the benefits of the endowment.

C. Organizational Capacity

Bureau of Jewish Education

The BJE, with a staff of 35, has two individuals who assist with major gifts from individuals. These include the Executive Director and the Development Director. The Executive Director is the face of the BJE, maintaining donor relations and cultivating new donors. He is also responsible for maintaining positive relations with the Jewish Community Federation in order to maintain BJE's \$1.3 million allocation each year, 30% of the annual budget and almost all of the operational costs for the BJE. The Development Director's role is to run the annual campaign and maintain donor relations. Through this role, they bring in roughly \$400,000 a year, 7.5 % of the annual budget.

Neither one of these staff members focuses their energy on a particular program area. The money raised by the Executive Director and the Development Director through the annual campaign is used for operating expenses. Each program area, including the Library, is responsible for grants or other funding sources for their own expenses. Each program is

allocated some money from the general BJE budget and the JCF allocation, but that money is limited and used mainly to cover administrative expenses.

Jewish Community Library

The Library has one staff member, out of four total, who works on fund development for the program, Jonathan Schwartz. Jonathan is, by his own description, not a fundraiser and says fundraising is not his professional interest (J. Schwartz, personal communication, March 16, 2007). Regardless, Jonathan is responsible for raising a portion of his total budget every year. This money comes from a variety of private foundations and individual gifts from Friends.

Recently, the Keren Keshet Foundation, a current funder of the JCL, granted the Library an additional \$500,000 over the next 10 years (adding to an existing \$1 million grant over a 10 year period). It is possible that some of these funds could be set to create or help build on a quasi-endowment (J. Schwartz, personal communication, March 16, 2007). Before pursuing this possibility, the Foundation should be consulted for approval of this use of the funds.

Friends of the Jewish Community Library

Friends has no staff. It is a completely volunteer operated organization. Friends' board members include a number of prominent members of the local Jewish community who have strong financial and personal connections to the Library and the ability to give large gifts themselves. However, the majority of Friends' donors give small donations, around \$25 annually, but are committed to the mission of the Library. This board is responsible for raising \$70,000 for the Library each year and for making decisions regarding the donor-advised fund located at the JCF Endowment Fund. Through an annual campaign they raise the majority of the

\$70,000. When they fall short of their goal, a portion of the donor-advised fund, usually the investment earnings, is allocated to the Library to supplement their fundraising endeavors. Last year, Friends hired a fundraising consultant to train the Friend's board members on fundraising. Since then, the consultant has been working with the board members to enhance their fundraising skills and improve their fundraising practices.

VI. Recommendations

Although the Library is seemingly secure in its funding sources, an endowment would provide diversified resources and help with incidental budget shortcomings. An endowment demonstrates to the community the professionalism and stability of the Library as well as its commitment to longevity. Given all of the benefits of an endowment, we recommend two approaches to pursuing, building, and managing an endowment for the Library.

- 1. Friends creates a quasi-endowment for the Library.** If Friends wants to pursue creating an endowment for the Library, then Friends should create a quasi-endowment building off of the existing donor-advised fund by adding major gifts to a quasi-endowment housed at the Jewish Community Federation (JCF) Endowment Fund. In order for this to be feasible, the following actions must be taken.

Endowment Fundraising

Since Friends has no planned giving program in place, the most feasible way for Friends to build an endowment for the Library is to launch a major gifts campaign. The ultimate objective of the major gift campaign is to collect large gifts that can be added to the quasi-endowment to help create a large asset base. Ultimately, the success of the major gifts campaign is dependent on communicating to donors how their gift will contribute to the vision and purpose of the Library in the long term (Hodge, 2003). Accordingly, Friends should take following steps.

- ✓ The Friends board should create an “Endowment Advisory Committee” (Schumacher, 2003). One or two BJE members should be assigned to this committee to help to create an

endowment. This committee should be responsible for launching a major gifts campaign and creating an endowment.

- ✓ The endowment advisory committee should develop a strategy, goals and directions related to the endowment creation and fundraising. Endowment fundraising is not a one-time effort and is very labor-intensive (Schumacher, 2003). Written strategies and plans will create a strong basis for the efforts of the committee.
- ✓ The committee should assess the endowment donor potential of the Library. At this point, the most important question is that “who will provide the funds for the major gifts campaign to create an endowment for the Library?” As explained in Section IV.B., there is a declining desire to give to Jewish organizations regardless of their focus. However, the Library may have an opportunity to receive major gifts from several of its major donors (J. Schwartz, personal communication, March 16, 2007). Committed major donors of the Library can provide funds to start an endowment.
- ✓ The committee should determine the financial capacity of prospective donors and their inclination to make a major gift to the Library. Specifically, donors may have the capacity to give major gifts, but they might be uncomfortable giving to an endowment rather than using their gift to support current program operations of the Library. Unless their values overlap with mission of the endowment, donors will be reluctant to give funds for the endowment. Some of the current major contributors of the Library have already expressed their concerns about giving to an endowment (J. Schwartz, personal communication, March 16, 2007). However, creating and articulating a case statement, as explained below, can address many of those concerns. Finally, BJE and Friends should work in collaboration to ensure that donors are not overburdened by the fundraising of both organizations.

- ✓ After evaluating the donor capacity and their inclination, the committee should determine how big to make the endowment program. In doing so, the committee should set achievable objectives for the funds to be raised through the major gifts campaign. Considering the current annual fundraising capacity of Friends, \$70,000, expecting to collect large amounts of funds through the major gifts campaign might be unrealistic. However, since the board members have been trained by a fundraising consultant to improve their fundraising skills, we can assume that fundraising capacity of the organization has improved since the training.
- ✓ Subsequently, the committee should write a case statement for the endowment. The success or failure of endowment fundraising depends on the case presented to prospective donors. The case statement should include the mission and vision of the Library's endowment. Friends needs to address both the nature of the endowment fund and the reasons for giving to endowment (Schumacher, 2003). As explained in Section IV.B., there is a general trend among donors to want to understand how their money is used and how it impacted (or will impact) the community. In this respect, the case documentation will serve as the main educational tool to help donors understand the benefits of endowment giving (Schumacher, 2003). The case statement should mesh the mission and purposes of the organization with the need for long-term support. The statement should be a clear, concise, compelling argument for the donor's role in the Library's future and should appear on all of the nonprofit materials related to building endowment (Miree, 2003). By articulating the case statement to the major donors clearly, Friends can address their concerns related to creating an endowment.

Endowment Management

A quasi-endowment structure provides the maximum flexibility to the organization in determining the uses, purpose, and payout rate of the endowment. A quasi-endowment requires that the Friends board be responsible for determining the payout rates and the level of spending. As discussed in Section IV.A., the typical payout rate is about 5 percent on an investment earning around 8 or 9 percent, in order to keep pace with inflation. As mentioned in Section IV.A., in order to have \$70,000 with a payout rate of 5 percent, the endowment needs to be at least \$1.4 million. In a quasi-endowment, the board can adjust this rate to suit the needs of the Library and the vision of the endowment as described to the donors. The level of spending refers to how much of the payout amount will be used annually. Again, the board has the authority, in a quasi-endowment, to adjust this as needed. Several key policies should be created prior to launching the major gift campaign and creating the endowment to ensure accountability and ethical handling of all gifts received. These policies include but are not limited to the following (Schumacher, 2003).

- ✓ A statement of board responsibilities related to endowment.
- ✓ A statement of rules for fund raising and the creation of new endowments.
- ✓ Rules for making additions to existing endowments.
- ✓ A statement that includes gift transfer rules, rules for the receipt of gifts, accounting policies, and procedures for endowment.
- ✓ Written investment policies, goals, and procedures.
- ✓ Templates for distribution and endowment reports.

Another important point is how to manage and hold the endowment. The most difficult and long-term aspect of an endowment is proper management, which our research found requires having financial and legal expertise as well as organizational and individual commitment.

Friends is a volunteer-based organization and does not have any staff to manage an endowment. In addition, given the time-consuming and complex nature of endowment management, it may be difficult to find a volunteer willing and capable of the task. As explained in Section IV.A., the quasi-endowment funds can be commingled with other endowments to create a more diverse portfolio while still accounting for the funds separately. In this respect, the major gifts collected during the campaign can be commingled with the donor-advised fund housed at JCF. JCF can manage the endowment fund in a most effective way due to its financial and legal expertise. In addition, frequently community foundations provide training to nonprofit organizations to help them build and manage their funds.

Conclusion

In light of these findings, creating an endowment through Friends seems to be a feasible option for the Library. When doing so, Friends should follow the steps presented in this section. Most importantly, board members should understand that building an endowment requires strong and long-term commitment. Considering the volunteer-based structure of the Friends, board members (i) should be ready to demonstrate consistent and ongoing effort and involvement, and (ii) should be willing to invest their time to have a successful endowment program. If board members meet these criteria, a major gifts campaign and an endowment building process can be managed effectively and yield fruitful results for the future long-term sustainability of the Library.

2. BJE creates a quasi-endowment for the Library and Friends continues to focus on raising money for the annual operating expenses. While this recommendation is the opposite of the original recommendation of the Executive Director, this may be a more feasible approach given the organizational capacity of both organizations.

Endowment Fundraising

In general, the same strategy of fundraising described in the first recommendation should be followed by BJE, beginning with launching a major gifts campaign. Unlike Friends, BJE is more sophisticated in its current fundraising. BJE currently has a planned giving program. Although the planned giving program is new and has yet to be fully developed, its existence provides a jumping off point for the BJE in launching a major gifts campaign. In addition, the fact that BJE has previously secured both large gifts and planned gifts gives BJE more credibility and legitimacy with donors.

BJE currently has paid staff dedicated to fundraising. Although they are not focused on fundraising for the Library, BJE has an advantage over Friends by having paid staff that have the time needed to cultivate major donors and are skilled in fundraising techniques and vehicles of giving. BJE should coordinate its fundraising efforts with Friends in order to maximize fund raising efforts and gifts. The Program Manager of the Library, Mr. Schwartz, will also need to spend time cultivating donors. As the primary face of the Library, it is important that he become an advocate of the Library in securing major gifts.

We were not able to do a thorough analysis of the BJE donor pool; therefore, we are not sure of the potential for major gifts from the current donor pool. We are aware of a current donor who provides a large enough gift to pay for the salary of one staff member (J. Schwartz,

personal communication, March 16, 2007). Individuals who have given major gifts in the past may be good resources for future major gifts. Despite the statistics presented in Section IV.B. regarding foundation giving, there is a foundation associated with the Library that may be a good resource for an additional major gift. The Keren Keshet Foundation supported the Library in the past with two major grants. The first grant was for \$1 million over 10 years and recently JCL received an additional grant of \$500,000 over the next 10 years. Section V.C. discussed the possibility of using a portion of the \$500,000 to create an endowment. While this option would have to be discussed with the Foundation, the unrestricted gift presents an opportunity worth pursuing. Since the Program Manager has a direct relationship with the Foundation already, further cultivation of that relationship by Mr. Schwartz may result in an additional grant or perhaps a challenge or matching grant.

Endowment Management

BJE should create a quasi-endowment structure because of the flexibility it provides to the organization. Due to the time-consuming and complex nature of endowment building, BJE may want to examine housing the fund at the JCF Endowment Fund. However, given the organizational capacity of BJE, the organization may have the ability to manage the quasi-endowment in-house. Another option available to BJE would be to establish a separate foundation that would be a supporting foundation to house the endowment. BJE would need to thoroughly evaluate their financial and legal expertise when making this determination. As stated in the first recommendation, the board will need to establish the vision, purpose, payout rate, level of spending, and necessary policies and procedures needed to effectively manage the quasi-endowment.

BJE will need to determine if the endowment is just for the Library or for the organization as a whole. It seems unlikely that BJE would establish an endowment solely for the Library, but it is something for the organization to consider. Even if the quasi-endowment were established for the agency as a whole, the Library would still benefit. The amount of money directed to the Library would have to be determined by the board.

Role of Friends

Under this recommendation, Friends would continue to raise the \$70,000 in operating expenses annually. Past annual campaigns operated by Friends have been successful at raising this amount of money. Therefore, it is reasonable to assume that they could continue this trend. Because Friends members are volunteers, this form of fundraising, which they are accustomed to, seems most fitting. Endowment fund raising requires a different level of commitment, time, and a sophisticated understanding of giving vehicles. In addition, if major gifts are received, depending on the preferences of the Friends board, these gifts could be placed in the BJE endowment.

Conclusion

Both recommendations present the possibility of creating an endowment for the Library. While Friends may have more desire to build an endowment, BJE has more of the organizational capacity needed to effectively create and manage an endowment. In addition, Friends has demonstrated their ability to raise the annual amount of \$70,000 and manage the donor-advised fund judiciously. Regardless of which organization creates the endowment, BJE must support the creation of an endowment for it to be successful. Donors are not as likely to give to an

endowment if they are not assured that the organization is committed to the long-term sustainability of the program. These recommendations present the next steps in the process of creating an endowment. The process of establishing and building an endowment will take several years, but once established, an endowment will provide the Library with the financial stability needed to operate for many years to come.

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VIII. Appendix

Appendix Table 1

ARE YOU READY?

Here is a brief checklist to help you determine if you are ready to start an endowment:

The entire board, staff and key volunteers (“We”) agree that our organization needs to exist at least 50 more years. YES NO

We currently have a strong individual donor program in place. Thank you notes, newsletters, and appeals go out on a regular basis. We regularly meet with our major donors, and a majority of our staff and board feel comfortable asking for money in person. Further, our annual income from individuals has been growing for the past three years, both in amount of money and in number of donors.

We have considered the drawbacks of having an endowment and have decided the advantages to our organization merit the risks.

We have decided on the use of the income from our endowment.

We have decided on an approximate ideal size for the endowment (understanding that this may take several years to achieve).

Authorization (reflected in the minutes) to open an endowment has been given by the board.

The board, in discussion with all appropriate parties, has created the following policies:

- A use policy
- An invasion policy
- A gift acceptance policy
- An investment policy

We have a plan for creating an investment committee (it is not really necessary to have such a committee until you have some investments).

We are excited about moving into this next phase in our organizational development.

If you answered yes to all the items, you are ready to go ahead and start an endowment.

In the next issue, we will outline how to create an endowment campaign. **GF**

KIM KLEIN IS PUBLISHER OF THE GRASSROOTS FUNDRAISING JOURNAL.

Source: Klein, 2005, p. 8

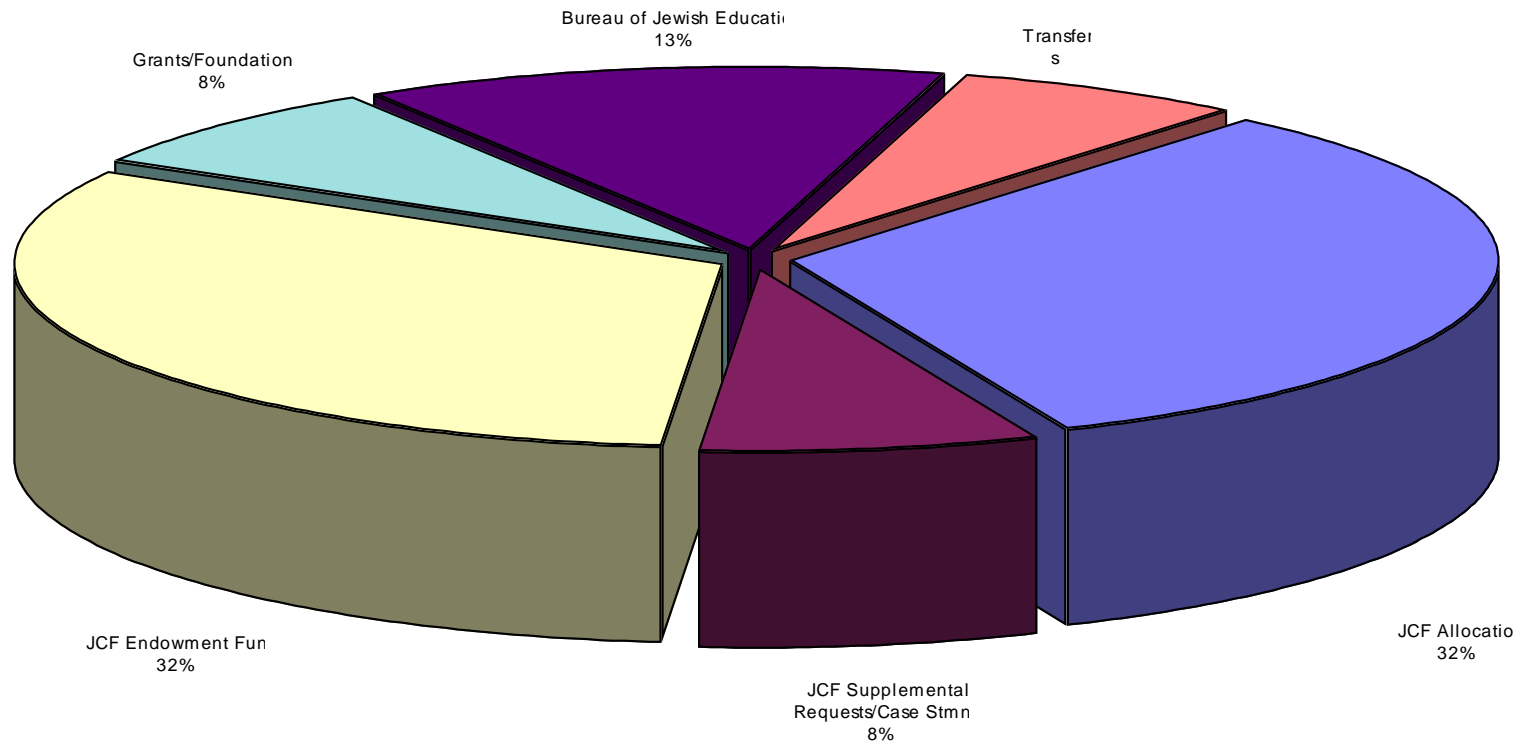
Appendix Table 2

Range of scores	Scores	Criteria
0-20		Board commitment
0-20		Knowledgeable leaders
0-15		Strong organization
0-15		Meritorious case for the future
0-10		Solid fundraising program
0-10		Substantial gifts
0-5		Marketing program
0-5		Endowment
Total Score		

Source: Newman, 2005, p. 33.

The criteria listed first are considered the most important. A score of 100 is the maximum. Usually, a score of at least 70 is necessary to successfully launch an endowment. If an organization is not ready to launch an endowment-building program, it should undertake the work necessary to strengthen the area of weakness.

**Appendix Graph 1
Bureau of Jewish Education
Income by Source
Year-End Projected, 2005-2006**



Appendix Graph 2
Bureau of Jewish Education
Expenditures by Programs
Year-End Projected, 2005-2006

