Nonprofit Windfalls

If you were plugged into social media or the news this summer, you no doubt have witnessed a new – but now not so unthinkable – fundraising opportunity for nonprofit organizations. These opportunities, propelled by social media into viral sensations, have resulted in massive levels of unexpected giving.

A financial windfall, if you will.

These fundraising events, frequently triggered by current affairs, may occur with little notice. Tiya Lim, Director of Institutional Services at Buckingham, has some suggestions for how organizations should responsibly handle a sudden inflow of non-budgeted funds. Specifically, she recommends that nonprofits immediately create or review their Investment Policy Statement (IPS), implement their IPS if available, adjust their investment risk profiles if necessary and reassess their investment counsel.

The ALS Association's now famous ice bucket challenge **raised more than $100 million over the course of one month** this summer. By comparison, the organization – which supports efforts to treat and cure the illness more commonly known as Lou Gehrig's disease – collected $2.8 million over the same period last year.

The much-watched campaign went viral a couple months ago. Social media feeds across the country are full of photos and videos of celebrities, athletes, politicians and executives dousing themselves with icy cold water. It's left the ALS Association handling more money than it has ever had before.

Barbara Newhouse, the group's president and CEO, is **quoted as saying**: "It's sort of like the lottery winner that receives a lot of money and four years later is looking in the mirror saying, 'What did I do with all that money? Where did it go?' We don't want to be that kind of lottery winner. We want to take this money and very thoughtfully plan out exactly what we're going to do with it."

Many nonprofits rarely have excess funds. They tend to spend what comes in the door during a normal operating year, and don't often have much left over, according to Lim. She suggests organizations in that position that benefit from an unexpected windfall should:

Create an Investment Policy Statement (IPS). A solid and well-crafted IPS will outline the organization's mission and establish goals for new windfall funds. The process of creating an IPS will help organizations identify both short- and long-term investment objectives as well create a set of priorities for where the new funds should be applied. Will these funds be put aside for a rainy day, perhaps for use in a year when donations are down? Will they be saved for a specific project, such as a new building or new program? Or will they simply be used to expand the scope of the programs already in place? Knowing the answers to these questions will play a significant role in shaping how an organization will invest any new funds. Buckingham uses **these guidelines** for creating a comprehensive IPS. But if an organization faced with a sudden windfall needs to move quickly, Lim recommends focusing on these three short-term objectives:

- State the mission and program goals to ensure that investment criteria will be tailored to them.
- Lay out the investment philosophy or strategy, including plans for the appropriate mix of investments in the portfolio.
- Define the duties of the organization's board of directors, investment or finance committee and investment advisor.

A predetermined investment plan can help organizations of any size respond proactively to an unexpected windfall.

The ALS Association has already begun the **process of determining where its new funds** will have the maximum impact. The organization is consulting with clients, volunteers and its local chapters – there are 38 across the country – on how the money should be spent. The group has said it plans to focus on expanding the work it already does, specifically through funding scientific research, advocacy programs and providing care for ALS patients and their families.

But what should happen once an IPS is in place?

My Friend's Place, a nonprofit supporting homeless youth in Hollywood, is likely **deciding what to do with a windfall of its own**. The privately funded organization received $70,000 in a day after Miley Cyrus promoted the group at MTV's Aug. 24 Video Music Awards. Cyrus had a My Friend's Place representative accept her award for video of the year. The nonprofit's executive director has said the funds may be used for anything from providing more services, staying open more hours or adding staff.

Implement the IPS. The best way to oversee successful implantation of an IPS is through the creation of an investment committee. This committee will frequently include members of an organization's board of directors or trustees. Alternatively, some nonprofits opt to establish a more independent subcommittee that reports directly to the organization's leadership. In either case, it should include professionals who thoroughly understand or have a background in finance, says Lim. Consider establishing a **set of best practices** to ensure proper investment committee governance.

The investment committee will determine how, and by whom, an organization's new windfall funds are managed.

"Will you have to onboard someone to handle managing these new funds in-house? If not, which advisory firm will you hire to do so? Will your investment approach be a conservative one or more aggressive?" Lim says. "All these decisions will ultimately rest in the hands of your investment committee."

A financial windfall may also present an opportunity to review existing plans. The St. Louis Area Foodbank, which last year distributed 35 million pounds of food to people in need, received more than $150,000 in donations over about a two week period in August.

Those donations, the result of an unexpected crowdfunding campaign spearheaded by a North Carolina teacher, were earmarked for the children of Ferguson, Mo. and came in response to the recent unrest there.

The situation presented an interesting, but not unwelcome, financial conundrum for the organization. The Foodbank's mission is to provide food assistance for people in 26 counties, but the organization also wanted to honor the intent of its donors, who gave money to support the children of a 20,000-person community.

"The challenge is to set yourself up so that when windfalls do happen, you can accept the funds and appropriate them according to the donors' intent,"says Vice President of Development Verletta Cole.

Trying to meet both these goals presented a challenge for the organization, she says.

Possible solutions include directing the funds to a targeted application of services. The Foodbank has already met with the Ferguson-Florissant School District to talk about setting up food pantries in one or two of its schools, according to Cole.

"For every dollar the Foodbank uses in resources, we're able to provide about four meals, so the impact on this community will be huge," she says.

The Foodbank accepted the funds because the purpose for which they were raised fell squarely within their mission. In fact, the nonprofit was already investigating expansion of its school food pantry program as part of their strategic planning process. And Cole says the organization looks to establish long-term sustainable programs to benefit the community.

More established nonprofits likely have an IPS already in place to direct the flow of future funds. However, if a windfall is large enough, or specifically earmarked, it may fundamentally change the goals and purpose laid down in the organization's original policy statement. If so, Lim suggests nonprofits should:

Review the IPS. If an organization's IPS has contingencies for a sudden inflow of funds, or can allocate them efficiently within the parameters of the current policy statement, it's good to go. If not, it's time to reevaluate the IPS. The windfall may result in a decision by leadership to expand an organization's mission, increase services in certain places or lower the risks associated with its current investments – all of which will require updating the IPS, says Lim.

It's also wise to consider public perception. If an organization has just received $50 million for cancer research in a well-publicized grassroots fundraising movement, it might not be wise to just bank all of it against future lean times. People will expect to see some of the money they donated spent on research. Holding onto it for too long may risk alienating future donors. A windfall can have a major impact on both organizational and investment objectives. An IPS needs to reflect this reality.

Change risk profiles, if required. Lim suggests considering the following scenario: An organization has a $100 million pool of assets (including, for example, an endowment). It spends 5 percent of that amount, $5 million, each year to cover operational costs and programming. To maintain that level of spending, assets are invested very aggressively in a portfolio of 80 percent stocks and 20 percent bonds. Say it receives an unexpected windfall of $100 million dollars. The pool of assets has now doubled to $200 million. If it keeps the level of spending the same at 5 percent, it will now have $10 million each year to cover operational costs and programming. The organization may decide to use the additional money each year to increase the scope or number of its programs. Alternatively, it could decide not to increase programming and keep annual spending from the pool of assets at the original $5 million. That's only 2.5 percent of a $200 million pool of assets, and that level of spending may require a much less aggressive portfolio allocation, say 40 percent stocks and 60 percent bonds. Choosing the conservative portfolio allocation will allow the organization to reduce portfolio risk, says Lim.

"Continuing to spend at or near the same dollar amount from an endowment each year would mean that risk can be taken off the table," she says.

An investment policy committee can decide whether to continue spending the same overall amount of money and reduce portfolio risk or continue spending approximately the same percentage amount and increase services. Of course, it may also land somewhere in between. "Whatever the case, an organization needs to be accountable for what it decides to do," Lim added.

Reassess investment counsel. A sudden windfall may change the way assets are managed. Some advisors will invest $7 million much differently than they will invest $50 million. An organization should do its due diligence when choosing new investment counsel or reexamining its relationship with its current adviser.

Taking a disciplined, evidence-based approach to investments provides the best odds of success for meeting an organization's financial goals and mission. Lim cites a recent study from Vanguard, which found that annualized returns for endowments with less than $100 million of assets under management underperformed market benchmarks over each of five-, 10-, 15-, 20 and 25-year periods. The disparity in performance was even worse after adjusting for risk. That means those endowments would have been far better off in lower-cost, well diversified index-based strategies.

Organizations in the market for a change should consider an advisory firm that has extensive experience working with nonprofits and one that will provide a fiduciary standard of care, which requires by law that the adviser act in their best interests. Other things organizations should look for in an adviser include a low-cost approach, a strategy that includes broad diversification and the ability to be transparent with an organization's holdings. Lim says this last item can be very important for nonprofits who want to make sure their investments align with their mission and public image. In addition, she suggests they address:

- **Fees.** The fees paid should be reflected in a growing pool of assets. The overall dollar amount may increase, but their percentage of total assets should decrease.
- **Earmarked donations.** Advisors should be mindful how funds earmarked for a specific cause or project will impact the overall picture.

A windfall donation – especially one of great magnitude – is definitely reason to celebrate, both in terms of the organization's success and the impact those funds will have on the community. "A detailed IPS, in effect a business plan for your organization's assets, will help ensure that those funds exist to support your mission, and the people and causes that will benefit from it, well into the future," Lim says.

About Tiya Lim, Director of Institutional Services

Tiya Lim's role as Director of Institutional Services for Buckingham provides opportunity for a rewarding blend of personal and professional satisfaction. Professionally, Tiya leads Buckingham's business development, operations and service offering to institutions and nonprofit organizations. Additionally, Tiya concentrates on investment policies for the firm as a member of the Investment Policy Committee and investment strategies for individual and institutional clients. She focuses much of her study on nonprofit best practices, Social Security and other retirement-related strategies.

Personally, Tiya aligns her cultural commitment to philanthropy with her commitment to her nonprofit clients, helping forward the mission of the institutions she counsels by making sure they are best suited financially so they can continue to perform their important work now and in the future.

Her own philanthropic activity includes serving on the Board of Trustees for Chesterfield Montessori School, the Fund Development Committee for the Girls Scouts of Eastern Missouri and as a board member for the Shakespeare Festival St. Louis.

Widely published, Tiya writes a column for Private Wealth Magazine on institutional investing. Her work on Social Security has been featured on CBS MoneyWatch.com and cited in the Journal of Financial Planning.

She holds an MBA from the University of Chicago and a bachelor's degree from the Wharton School of the University of Pennsylvania in Philadelphia.

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