

Development 101

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John P. Rush

Vice President for Development and Alumni

Program Outline

- History of Philanthropy in the U.S. and in Higher Education
- Annual Fund
- Major Gifts
- Planned and Deferred Gifts
- Stewardship
- Asset Management
- Foundations that Support Higher Education

History

- Philanthropy—from Greek “Love of Mankind”
- Unique to the United States
- Harvard University
- Alumni Associations and Fundraising
- State Universities/Private Universities
- Today’s Climate
 - \$295 B to Charity in U.S.
 - \$41 B to Education

Gifts and Donations

- A *GIFT* is a tangible symbol of feelings between people.
- A *DONATION* is a tangible symbol of support to a cause.

Annual Gifts

- Frequently given/asked
- Discretionary income
- May be unrestricted funds
- Mailings, events, phone, electronic
- 2-5% of income
- Expensive to operate
- 90% gifts; 10% dollars
- 1st step to major gift
- Very, very important

Major Gifts

- Infrequently given/asked
- From assets: stop/think
- Relationship required (People key)
- Targeted/restricted projects
- 10-20x annual fund gift
- 10% gifts; 90% dollars
- Often repeated over time
- Critical to success

The Math of Major Gift Work

- For each major gift ($> \$25K$), you need three prospective major givers
- On average, a major gift is closed after 9 meaningful contacts, or between 6 months and 2 years
- Thus, to get 5 new major gifts requires $3 \times 9 \times 5 = 135$ meaningful contacts

Ultimate Gifts

- Once in a lifetime gift
- Combination of giving methods; many people involved
- Total commitment to institution's mission
- Long, emotional relationship (and several previous major gifts)
- Often involves major naming opportunity
- 1,000-2,000x annual gift; 10-20% net incoming-producing assets

Top Three Reasons People Give Major and Ultimate Gifts

- Belief in mission and stability of the organization
- Sense of civic responsibility
- High regard for staff and volunteer leadership

Bottom Three Reasons People Give Major and Ultimate Gifts

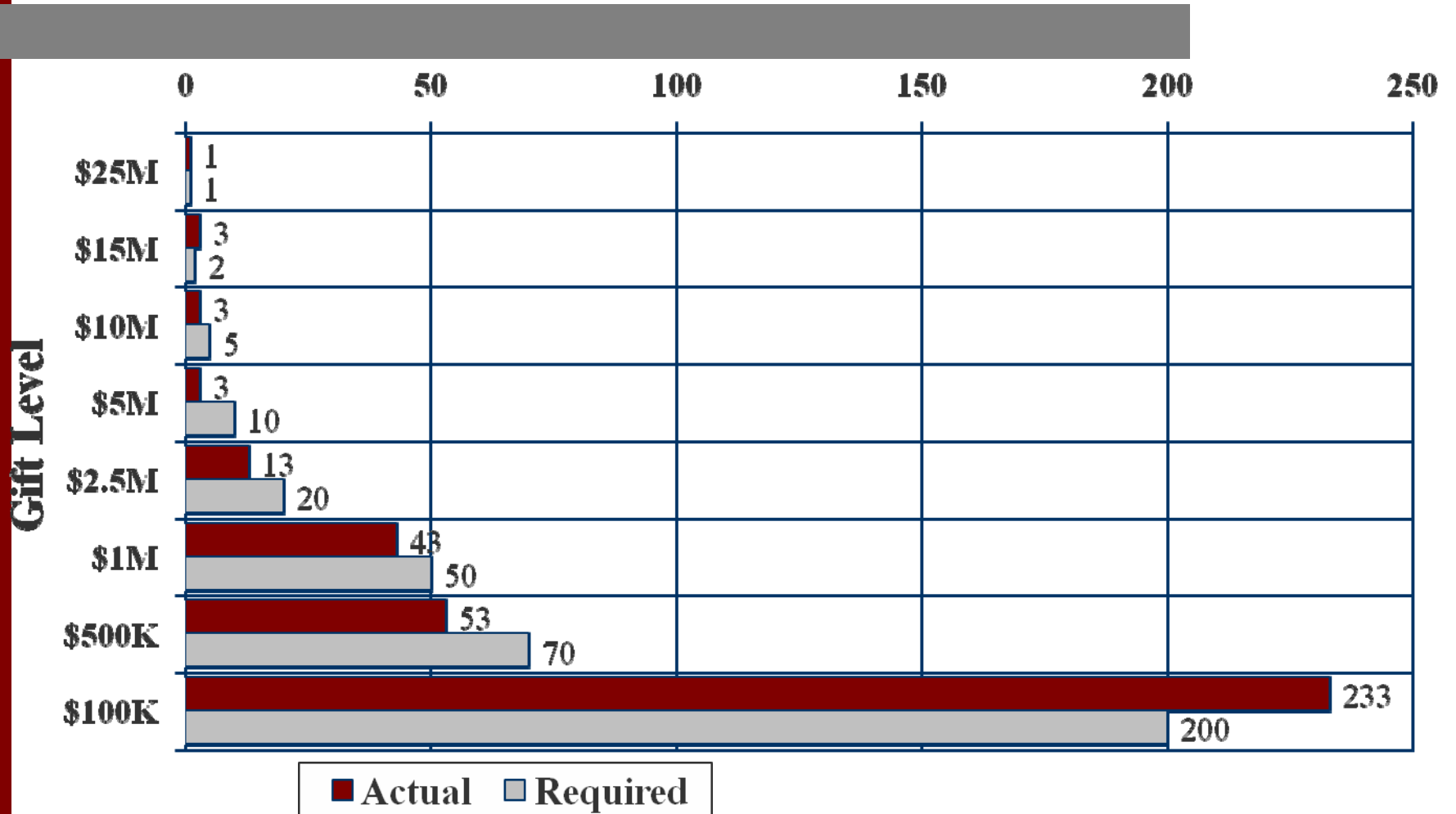
- Guilt and obligation
- Promotional materials and proposals
- Tax considerations

\$400 Million Gift Table

Suspects	Prospects	Gifts	Averaging	Equaling	Totaling
9	3	1	\$25,000,000	\$25,000,000	\$25,000,000
18	6	2	\$15,000,000	\$30,000,000	\$55,000,000
45	15	5	\$10,000,000	\$50,000,000	\$105,000,000
90	30	10	\$5,000,000	\$50,000,000	\$155,000,000
180	60	20	\$2,500,000	\$50,000,000	\$205,000,000
450	150	50	\$1,000,000	\$50,000,000	\$255,000,000
630	210	70	\$500,000	\$35,000,000	\$290,000,000
1,800	600	200	\$100,000	\$20,000,000	\$310,000,000
		Thousands	< \$100,000	\$90,000,000	\$400,000,000

Number of Actual Gifts vs. Gifts Required

July 1, 2001 – January 31, 2008



Planned & Deferred Giving

- What is the difference?
- All deferred gifts are planned gifts, but not vice versa.
- The role of planned giving in major gift work

Planned Current Gifts

- Cash
- Securities
- Real Estate
- Family Corporate Stock
- Bargain Sale
- Charitable Deduction Limits

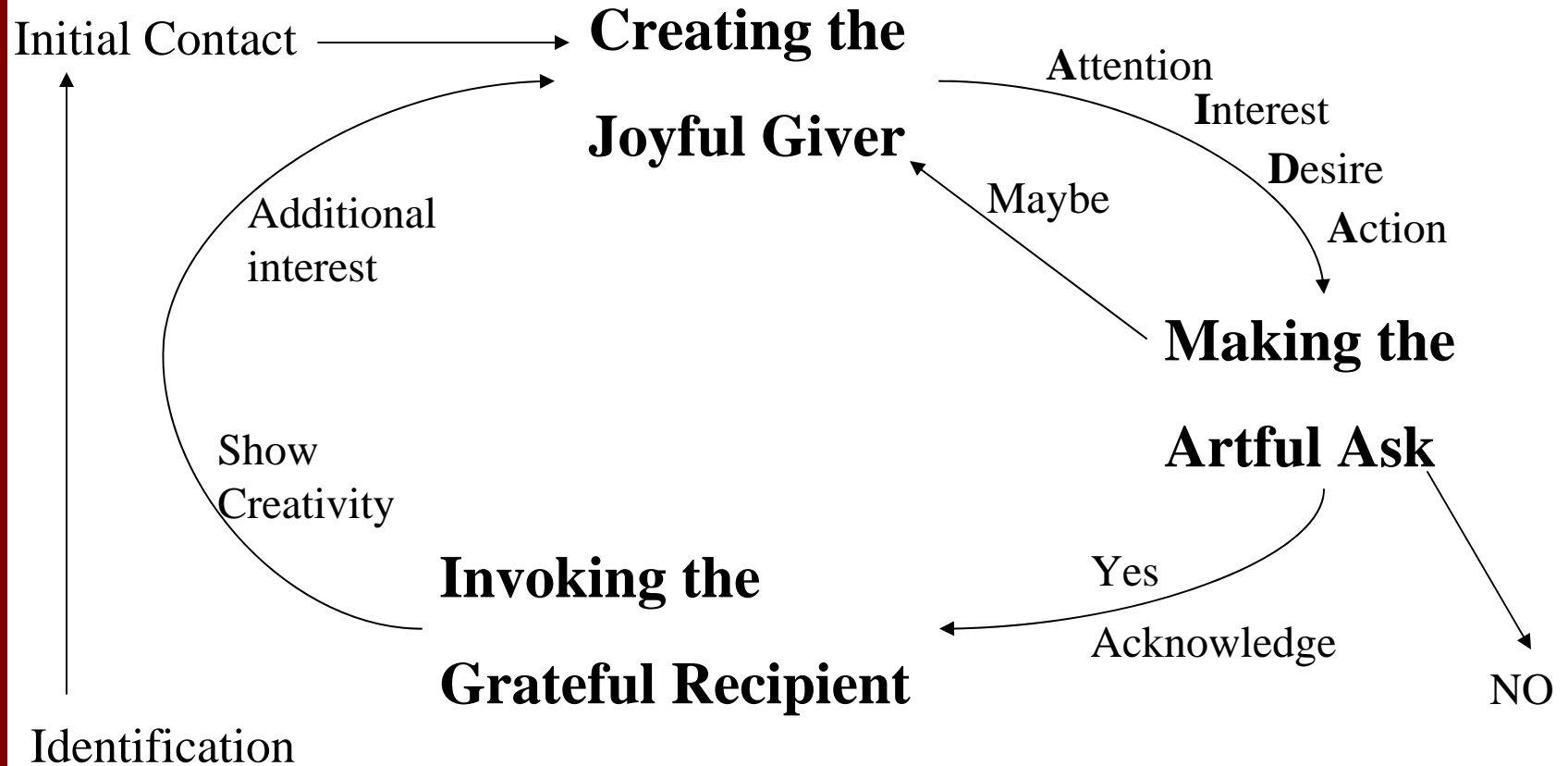
Planned Estate Gifts

- Gifts through a will (Bequest)
- Living Trust
- Retirement Plan Assets

Planned Deferred Gifts

- Charitable Remainder Trusts
 - Charitable Remainder Annuity Trusts (CRAT)
 - Charitable Remainder Unitrusts (CRUT)
- Charitable Gift Annuities
- Charitable Lead Trusts
- Life Estate Contracts

Cycle of Successful Development



Stewardship of Gifts

- Key in nurturing and building of lasting relationships between the charitable organization and those who support it with their wealth, wisdom, and work.
- As an active advocate of donor interests throughout the organization, donor stewardship fosters and encourages such support by:
 - Acknowledging any and all contributions in a timely, accurate, and appropriate manner;
 - Recognizing donors in meaningful ways that faithfully adhere to any stated wishes regarding anonymity and other levels of public disclosure; and
 - Reporting to donors in a consistent and accurate manner on the use, impact, and management of their financial contributions.

Stewardship at Work

- Acknowledgements
 - Thank you letters sent by various individuals
- Recognition
 - Permanent recognition such as:
Donor walls, program funding, endowed chairs, other select naming opportunities
 - Donor recognition events
 - Donor clubs

Stewardship at Work (con't)

- Reporting

- Tax receipt
 - IRS requires a receipt for contributions of \$250 or more.
 - Some organizations receipt all levels of gifts.
- Annual stewardship (endowment) reports
- Report scholarship recipients

Asset Management Points of Interest

- As of December 31, 2007, the Mississippi State Investment Pool managed about \$240 million in endowed assets through its 17 money managers.
- The MSU Foundation's Investment Committee establishes investment policy (including the asset mix), and selects and evaluates managers.
- The Foundation retains the "Fund Evaluation Group" of Cincinnati, Ohio, as its investment consultant.
- The portfolio is constructed to maximize total return, while minimizing volatility.

Points of Interest (con't)

- The Foundation makes no attempt to “time the market.”
- In the long term, the total portfolio return should equal or exceed spending plus inflation.

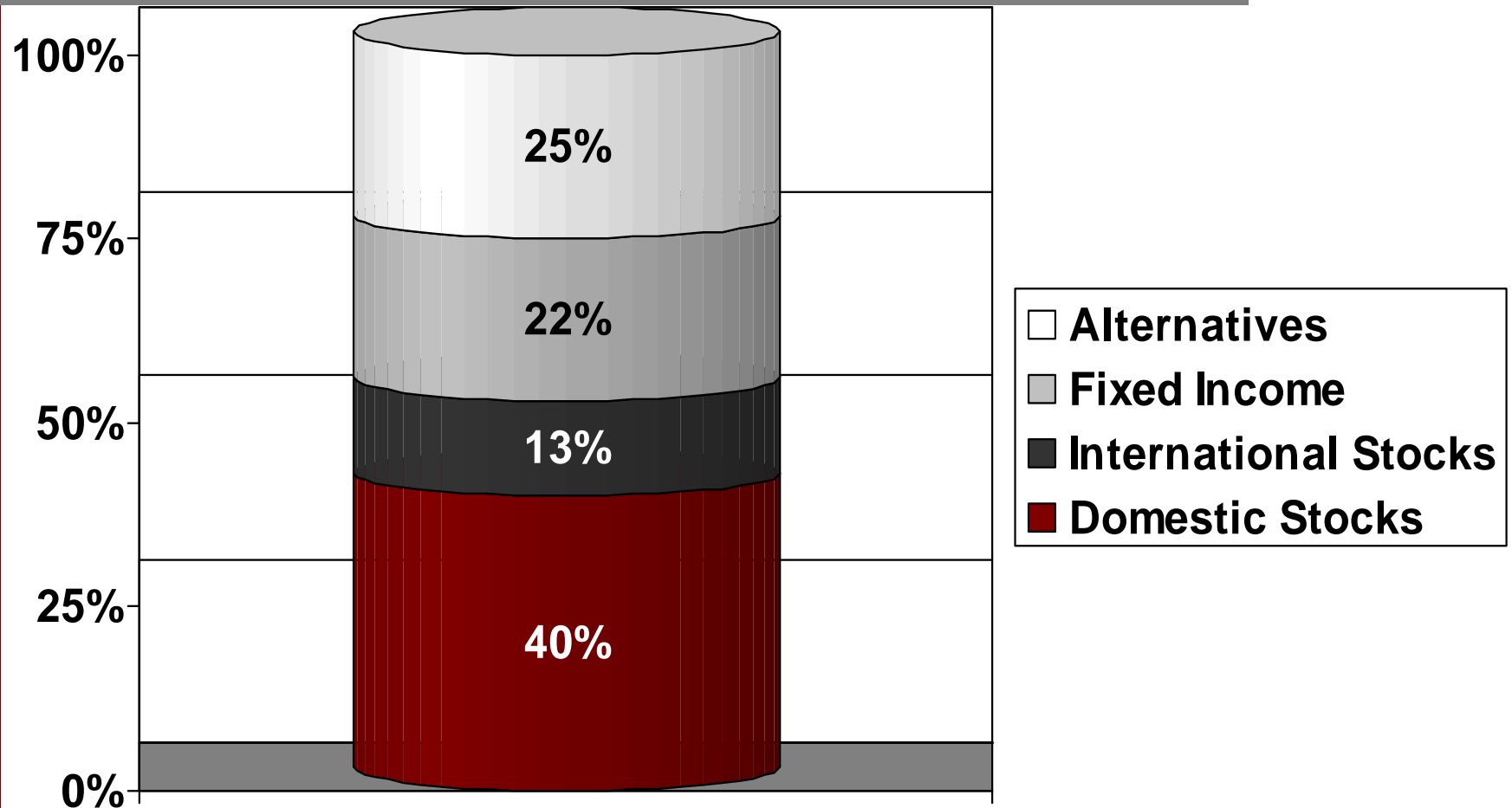
Long-term “Hurdle” Rate

$$\begin{array}{ccccccc} 4\% & & 1\% & & 4\% & & 9\% \\ \text{Spending} & + & \text{Annual} & + & \text{Inflation} & = & \text{Minimum} \\ \text{Rate} & & \text{Mgt Fee} & & \text{Rate} & & \text{Acceptable} \\ & & & & & & \text{LT Return} \end{array}$$

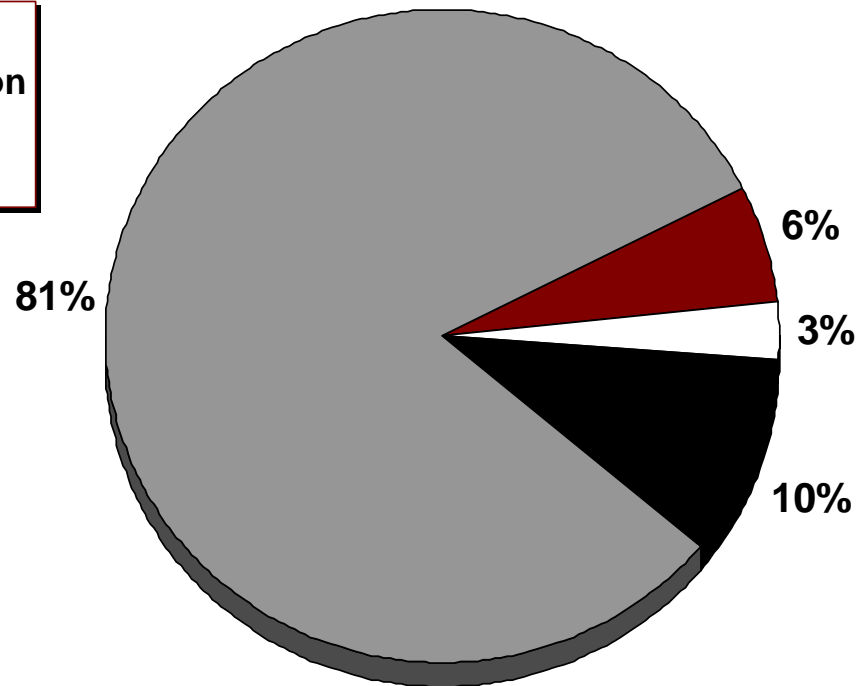
Spending

- Why not simply spend what is earned?
- Two scenarios over a 10-year period
- Endowment #1 - \$100,000 earns average of 8% per year and pays out all earnings, inflation 3%
- Endowment #2 - \$100,000 earns average of 8% per year, spends 4% and reinvests 4%, inflation 3%
- Endowment #1 has market value of \$100,000 at end of ten years, but inflation has eroded purchasing power to equivalent of \$73,742
- Endowment #2 has market value of \$148,024

Target Asset Allocation



Investment Pool Partners

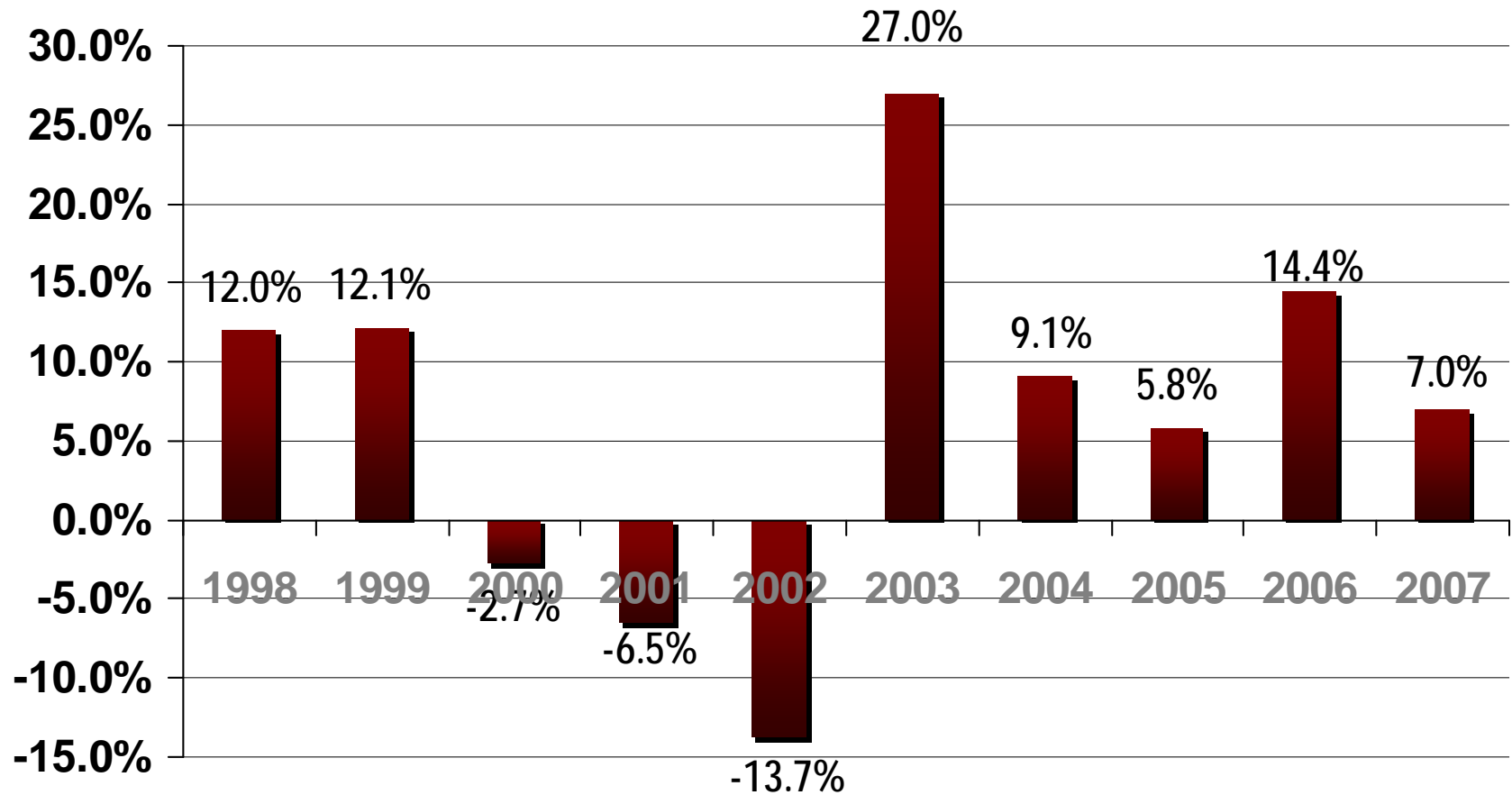


Total Value of Pool: \$237,061,460

as of December 31, 2007

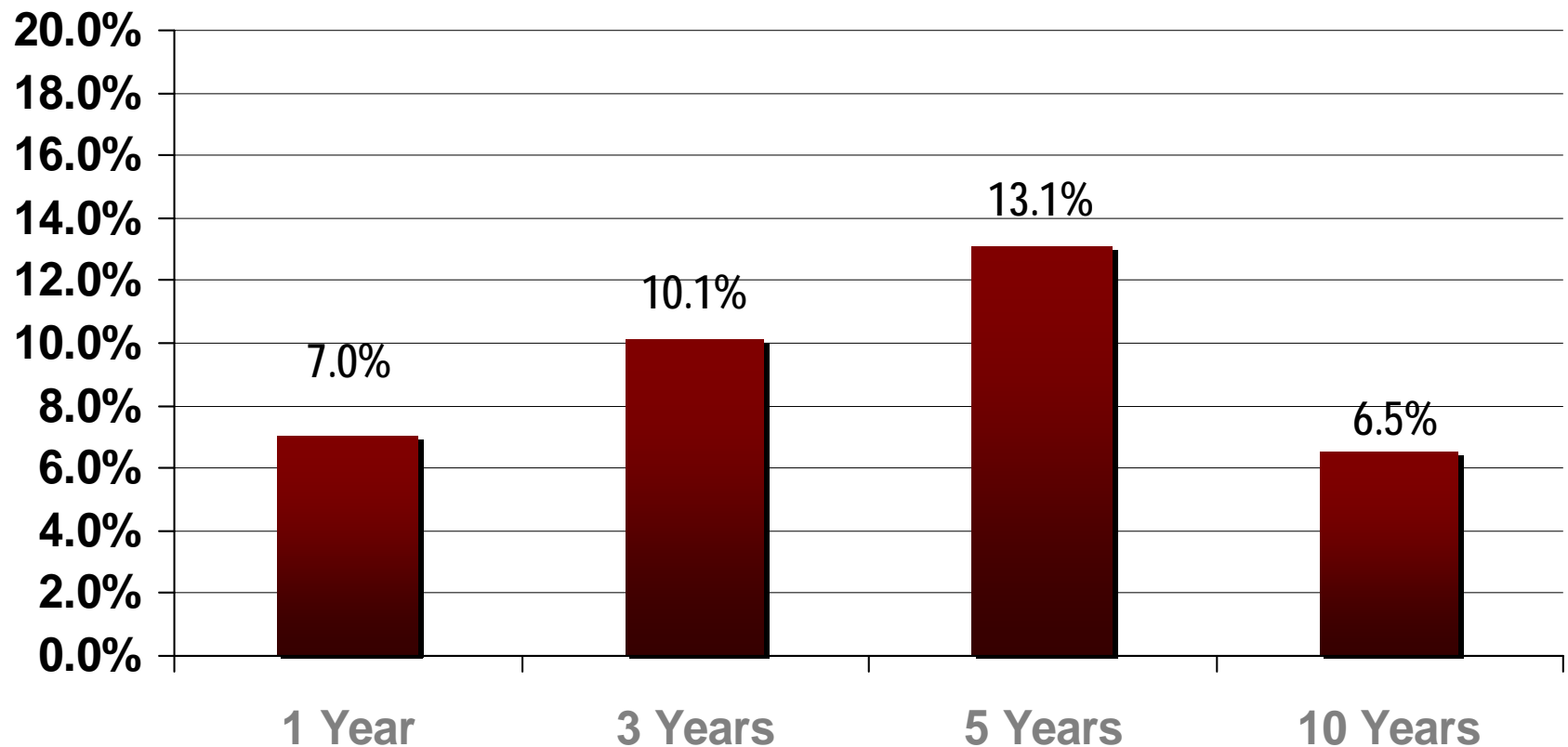
Investment Results

12-month Returns as of December 31



Recent Investment Results

1-, 3-, 5-, and 10-year returns as
of December 31, 2007



Foundations in Support Higher Education

- History and Purpose
 1. Keeps public and private funds separate
 2. Keeps public and private records separate
 3. Greater flexibility
 4. Opportunity to involve high-level volunteers in university life

Foundations in Support of Higher Education

- Governance Models
 - Independent
 - Dependent
 - Interdependent (most common)
- Funding Models
 - Direct Support From Host Institution
 - Unrestricted Gifts
 - Fees
 - Some combination of above (most common)

Foundations in Support of Higher Education

- Relationship with Host Institution
 - Memorandum of Understanding Critical
 - Interaction with Governing Board
 - Remaining vital
 1. Fundraising performance
 2. Investment performance
 3. Being responsive
 4. Being accountable

Thank You!