



And the Stewie Goes to ...

... Managing Unspent Payouts

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### **Best Practices in Managing Unspent Endowment Payouts**

Donors have entrusted us with their contributions, and we are obligated to be good stewards of those funds and that trust. Donors who have established endowed funds at our institutions have made, in my opinion, an even greater demonstration of trust. Their funds will continue in perpetuity—as long as the institution's doors are open. What, then, can an institution do when the payouts from these endowed funds are not being spent?

While endowments are often the lifeblood of an institution, they can also be the source of many headaches. Identifying and managing unspent endowment payouts can be a laborious, but worthwhile process. Properly managing, spending and reporting on the use of donors' funds can position you to clearly demonstrate the impact of their contributions, as well as create the opportunity to ask for an additional gift. Our role in donor relations and stewardship is to (a) identify and organize unspent payouts; (b) articulate the importance of appropriate spending to your organization's key constituents; and (c) troubleshoot problems.

In a webinar that I presented for the Association of Donor Relations Professionals (ADRP) on February 25, 2014, I outlined key steps for addressing and rectifying this issue:

1. Identify unspent payouts. Here is an illustration of an easy way to check whether funds are being expended at the proper pace.

## How to check?

### Example 1

- Endowment principal:
  - \$400,000
- 5% as spending rate:
  - \$20,000
- Payout account at beginning of FY:
  - \$50,000
- Unspent funds from previous FY(s) allowed to accumulate into this FY
  - If not addressed, could accumulate into significant sum

### Example 2

- Endowment principal:
  - \$50,000
- 5% as spending rate:
  - \$2,500
- Payout account at beginning of FY:
  - \$2,800
- Only \$300 carried over from previous FY(s)
  - Not problematic at this time

2. Gather key information from the various departments involved, usually development/advancement, finance, and financial aid (if appropriate).

## Step 3: Organize key information

| Account number  | Name of fund   | Fund Administrator   | Total market value  | Fiscal year payout   | Amount in payout account  | Criteria   |
|---|--|--|---|--|---|--|
| <ul style="list-style-type: none"><li>•Should differentiate fund types</li><li>•Finance</li></ul> | <ul style="list-style-type: none"><li>•Donor wishes</li><li>•Audit among departments</li></ul> | <ul style="list-style-type: none"><li>•Use position, not name</li><li>•Use highest-level position</li><li>•Audit among departments</li></ul> | <ul style="list-style-type: none"><li>•FMV of fund</li><li>•Finance</li></ul> | <ul style="list-style-type: none"><li>•As determined by spending rate</li><li>•Finance</li></ul> | <ul style="list-style-type: none"><li>•Available for immediate expenditure</li><li>•Finance</li></ul> | <ul style="list-style-type: none"><li>•When in doubt, FOLLOW DONORS' WISHES</li><li>•Audit among departments</li></ul> |

3. Organize this key information into a clear and concise spreadsheet/report that can provide necessary guidance to those who are charged with administering these funds.

4. Analyze the information to provide a prioritization roadmap. What funds are in need of the most attention?
  - a. Sort funds in descending order by “Amount in payout account.”
  - b. Determine threshold where amount of unspent monies is unacceptable.
  - c. Provides list of “offenders.”
  - d. Starting point for action.

## Sample chart of funds

| Name of Fund                               | Fund Administrator     | Total Market Value (6/30/13) | FY14 Payout | Amount in Payout Account |
|--|------------------------|------------------------------|-------------|--------------------------|
| John Smith Endowed Chair - Pharmaceuticals | Provost                | \$1,165,173                  | \$68,997    | \$429,390                |
| James Donor Endowed Chair – Chemistry      | Provost                | \$4,271,381                  | \$240,683   | \$405,341                |
| Jill Miller Endowed Research Professorship | Director of Research   | \$2,000,000                  | \$103,848   | \$310,835                |
| Shirley Doe Deanship                       | Provost                | \$1,416,408                  | \$83,874    | \$216,931                |
| Margie Library Endowed Fund                | University Librarian   | \$305,319                    | \$18,080    | \$121,197                |
| Fly Away Endowed Study Abroad Fund         | Director, Study Abroad | \$214,895                    | \$10,491    | \$73,078                 |
| Druge Pharmacology Research Fund           | Dean                   | \$204,734                    | \$12,124    | \$63,400                 |
| Jolly Good Endowed Fellowship              | Director of Research   | \$133,842                    | \$7,926     | \$42,548                 |

5. Formulate an action plan. With whom will you speak first, and is training an important aspect? Your action plan will be specific to your situation and culture. In general, you will want to form partnerships among different groups within the organization to be certain that your institution is respecting the donors’ wishes.

6. Implement the action plan and be prepared to address the common reasons why funds are not being spent.
  - a. Added extra requirements over the years?
  - b. Difficulty identifying appropriate recipients?
  - c. Need to allow payout to accumulate so have funds to use in subsequent years?
  - d. Unaware that s/he was listed as administrator?
  - e. Saving for rainy day?

Above all, it is critical to highlight to the fund administrators the importance of proper and timely expenditure of the funds:

- a. Maintain donor trust.
- b. Ability to report to donors.
- c. Difficult to ask for more money when previous gifts have not been spent.
- d. Offset operating expenses.

Although it is likely to be a slow, and sometimes arduous, process, the reward of having a complete and accurate inventory of all your donor-endowed funds with knowledgeable and proactive fund administrators makes the entire process worthwhile.

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