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To Spend a Windfall Wisely Takes Time, Energy, and Restraint

Debra E. Blum | March 13, 2014 | www.philanthropy.com

When a Montana church received a $1-million bequest last fall – nearly double the size of its annual budget – the pastor asked his congregation to pray about the gift for 40 days before any discussion would start about how to spend it.

In California last summer, a domestic-violence shelter quickly stashed a seven-figure donation into a newly created endowment to keep staff members from claiming it for their pet projects.

And when a social-service group in Mississippi was surprised at the end of the year with an anonymous $1-million contribution, the charity's leader, worried that employees and donors might mistakenly think the group was flush, kept the news quiet until he could explain the organization's financial position and needs.

For these small nonprofits and others like them, a donation of hundreds of thousands of dollars or more can be a thrilling, once-in-a-lifetime windfall. But handling such gifts can also overwhelm organizations that aren't used to seeing so much money at once.

Trickiest of all is when the gifts come as a surprise – as they often do, since small charities are not typically courting big donors – and without specific donor instructions.

That's where patience and planning are paramount, say charity experts.

"Hitting the pause button is the most important thing to do," says Caren Skoulas, chief financial officer of the Poetry Foundation, which was formed in 2003 after a tiny nonprofit that published a poetry magazine received a $200 million gift from the philanthropist Ruth Lilly. "Even if it's not millions and millions, if it's more money that the organization has ever dealt with, they should pause and take stock."

Time to Think

Small charities might need to secure the necessary investment expertise or set up endowments to manage the money. They might have to establish policies to protect the gift from being drained quickly, spent unwisely, or fought over by charity leaders with competing interests.

And they might need to gently remind other donors that their support is still needed, despite the windfall. A gift's impact depends not only on its size but also the size of the organization that receives it.

For instance, last month's $150-million donation to Harvard University by Kenneth Griffin, the hedge-fund manager, was just a drop in the bucket for the institution and its current $6.5-billion fundraising campaign.

But when a small Indiana community foundation received a bequest of about that size from Guy David Gundlach in 2012 – roughly triple its entire endowment at the time – the move triggered more than a year of working with special task forces, focus groups, and consultants and lots of soul-searching and strategic planning.

The result: four new areas in which the organization will direct its grant making, starting in the summer.

"To deal with a mega gift, a nonprofit has to spend a lot of energy and time thinking it through before it acts to spend," says Pete McCown president of the Elkhart County Community Foundation, in Indiana.

"It's akin to someone of modest means winning the Powerball and continuing to live in the house the live in and not buying that Ferrari, while they work with accountants and lawyers to figure everything out."

Scott Hitchcock, a Seattle financial advisor, also uses a lottery analogy to explain what he considers a donor's obligation to give responsibly.

Just as a lottery winner shouldn't buy a million-dollar home for a relative what can't afford the taxes and upkeep, he says, donors shouldn't make a donation that might overwhelm or obligate the charity.

"The burden should be on the donor to make sure the charity has the operations and expertise to handle the gift they want to give," Mr. Hitchcock says.

He suggests that donors research the groups and work with their leaders to craft a gift that makes sense.

If the donor makes an unrestricted gift, it might be smart to give it in parts over time.

A living donor could use a donor-advised fund to distribute the money, he says, while an estate gift could be established as an endowment.

Charities, in turn, should ensure they have the right money management policies in place and should work with donors and their advisors to make sure the donation would best fit their needs.

But when donors end up surprising even the smallest non-profits with relatively huge sums of money with no strings attached, charities are left to come up with their own solutions to handle the windfall.