



**Donors Want To  
Support Their Passion,  
Not Fill A Gap.**

**Reinvent Your Annual Fund**

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**THE ANGELETTI GROUP**  
New Haven, CT • Morristown, NJ • Naples, FL

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# DONORS WANT TO SUPPORT THEIR PASSION, NOT FILL A GAP. REINVENT YOUR ANNUAL FUND

## BACKGROUND

- There is no universally-accepted definition of an “annual fund” provided by the Council for the Advancement and Support of Education (CASE) or the Council for Aid to Education (CAE), which administers the annual Voluntary Support of Education survey.
- Historically, many schools count only unrestricted gifts made by alumni, parents, trustees, faculty, staff, and other friends (including corporations and foundations) toward their annual fund cash numbers.
- By contrast, gifts designated by donors to support the general operations of, for example, non- endowment scholarships, arts, athletics, or specific academic departments have not been counted as part of the annual fund. This is in spite of the fact that often times schools, for good reason (see textbox below), tell donors that they may designate their annual gift to the area (or areas) that they are most passionate about.

Annual funds are used differently depending on the school, but in general cover operational expenses including, but not limited to, faculty professional development, academic resources and supplies, yearly facilities improvements, equipment and technology purchases, and co-curricular expenses. In many if not most cases, the annual fund also provides financial aid and scholarships for families.

— FAQs: Annual Giving and Capital Giving to Independent Schools; March 12, 2021

“The current economy is merely exacerbating a fundraising problem that has been around for a long time. On one side are Boards and CEOs insisting that they have to have the money now and that as much of it as possible must be raised unrestricted. On the other side are donors who have become increasingly frustrated with the organizations they support which either cannot or will not tell them, in measurable terms, how their gifts are being used. (“Lack of measurable results on their gifts at work” is the number one cause of donor attrition.) Caught in the middle are fundraisers who have not been very successful at getting their bosses to understand that only through restricted giving — i.e., by assigning gifts, whatever their value, to specific programs and services — can the evidence be generated that will satisfy donors and ensure their ongoing loyalty.”

— Penelope Burk, *Burk's Blog, Fundraising in Economic Turmoil: Your Donors' Bottom Line*; December 8, 2008.

- While this quote may be over a decade old, its argument still holds true. The majority of donors want to know that their gift, regardless of its size, will have a measurable impact on the organization. Indeed, in Ms. Burk's 2021 donor survey, she noted that 45% of donors who had planned to decrease giving in 2021 would, in fact, increase support if the not-for-profit made a compelling case and/or presented better information about what was accomplished with the gift the donor made in the previous year. She went on to state: “As past editions of this Survey have pointed out, simply selling the brand or the organization as a whole will not motivate these stay-the-course donors to give more. A restricted or designated appeal for a program, project, or area of focus that is specific and measurable is essential.”

- Furthermore, as Dr. Richard J. Soghoin, former headmaster of Columbia Grammar and Preparatory School pointed out in his book *Mind the Gap!*: “The fact is, large endowments, large annual funds, and large tuitions all go hand in hand. What the naïve, unsuspecting, well-intentioned, and generous parent was led to believe, that writing a check to the endowment or giving a check to the annual fund would offset the cost of tuition, is not at all true, superficial appearances notwithstanding. If Adam Smith’s ‘impartial spectator’ were to cast his objective gaze upon the world of private school finances, he would have to conclude, based on overwhelming empirical evidence, that large endowments in conjunction with large annual funds lead to large tuitions, and not at all the opposite as claimed. Protestations to the contrary, the fact is the more money you give to a school, the more money is spent, and the faster you give it, the faster it is spent—meaning ever higher, not lower, tuitions.”
- In other words, rather than promoting the message that annual fund dollars will close the gap between the actual cost of education and tuition, which is becoming less and less of a compelling argument to potential donors, many schools would benefit from encouraging donors to make their annual gift in support of the program(s) or academic department(s) that they are most passionate about. By doing so, schools will be better prepared to increase the giving participation rates by: (1) developing more customized solicitations that speak to potential donors’ passions; and (2) creating more personalized stewardship reports to show the impact of their specific gifts on the school. Perhaps more important, schools will also uncover the areas / projects that resonate most with its parents and alumni, which will help it to be more strategic in its outreach both for the annual fund and for major gift engagements.
- By offering donors the ability to restrict/ designate their support to areas that schools are already funding through the operating budget at larger amounts than provided through purely unrestricted gifts, schools are able to increase their potential to retain and attract new donors.

## PROPOSED DEFINITION OF THE ANNUAL FUND

- Include all gifts (1) made in response to annual fund solicitations that (2) underwrite budgeted expenses.

- (1) *Annual fund solicitations.* Restricting the annual fund to gifts that are made in response to annual fund solicitations is perhaps somewhat circular, but it eliminates the generally fruitless effort of trying to examine a lot of disparate gifts to see whether they can be made part of the annual fund.

If your school solicits for the annual fund, by means of a written appeal or verbal ask, and the solicitation explains the role and importance of the annual fund in supporting the budgeted expenses of the school, and a gift made in response to that solicitation is further designated, you are on pretty safe ground in applying it to the budgeted expenses of whatever activity is indicated.

- (2) *Underwrite budgeted expenses.* Look at your school’s annual operating budget. Does it rely on a certain cash contribution from the Advancement/Development office, which is used to underwrite the budgeted expenditures of the school? Has this type of contribution historically included only unrestricted gifts, as noted above? Has it also included gifts designated to subsidize the financial aid budget?

If a donor makes a contribution designated for financial aid, which can be used to underwrite the financial aid budget, this means that a corresponding portion of the financial aid awarded will not have to be funded from general revenue. That financial aid gift underwrites budgeted expenses as much as any purely unrestricted or undesignated gift. The justification is that such gifts underwrite budgeted expenses, i.e., they are “budget-relieving.”

By the same logic, a gift designated to a specific department or program – absent any additional restrictions placed upon the gift by a donor, particularly restrictions that require your school to do something that has not been budgeted for – may also be treated as a gift intended to underwrite the budgeted operating expenses of that department or program. Such gifts should, therefore, be treated as part of the annual fund.

## CONCLUSION

- In today's fast-changing private education landscape, philanthropy is more important than ever. Uncovering and understanding what motivates individuals to make their first gift, to sustain their support, and ultimately to increase their contributions is essential to your school's future success. Reinventing your annual fund so that potential and current donors can support their passion is fast becoming one of the most valuable instruments in the fundraising toolkit. It provides new avenues for non-donors to make an initial gift. It empowers your team to create highly personalized solicitations and donor appreciation materials, which in turn makes current donors feel like individuals instead of just a checkbook. And it informs and refines the ways in which your major gifts team is able to engage with leadership giving prospects. As donor's expectations and philanthropic priorities become increasingly more targeted and selective, it is imperative that your advancement program is able to respond in kind.

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