

ENDOWED FUNDS

FOR COMMUNITY
BENEFIT
ORGANIZATIONS
(NONPROFITS)

FREQUENTLY ASKED
QUESTIONS

WHAT IS THE DEFINITION OF ENDOWMENT?

The commonly accepted meaning for endowment is a fund which is kept in perpetuity and invested to provide earnings for the benefit of a charitable cause. It is a long term fund held and managed by the Foundation on behalf of a community benefit organization. The organization receives annual distributions for unrestricted use. The fund is technically owned by the Foundation on behalf of your organization.

SHOULD ALL ORGANIZATIONS HAVE AN ENDOWMENT?

No. Organizations which are formed in support of short-term causes or particular events do not need endowments. Similarly, organizations which are in financial crisis, do not have a well developed donor base, or lack any credible record of accomplishments are unlikely candidates for an endowment.

WHAT ARE THE ADVANTAGES OF HAVING AN ENDOWMENT WITH THE FOUNDATION?

FINANCIAL STABILITY AND OVERSIGHT

- Endowment provides a steady income stream for your organization to offset operations, fund risk ventures (new/innovative programs), tuition assistance, etc.
- Other revenue streams can fluctuate; unrestricted endowment proceeds can be a predictable source of revenue.
- Consolidated investment management provides a better return with lower administrative costs through economies of scale. The Foundation's Board of Directors has fiduciary oversight.
- The Foundation is in compliance with the Council on Foundation's National Standards. National Standards assist community foundations in establishing legal, ethical and effective operating practices that show a foundation's transparency and financial responsibility.
- Nonprofits are freed from reporting on this fund. The Foundation handles Form 990 reporting and provides bi-annual (or more frequent, on request) reporting to your organization and staff on investment fund performance.

ENDOWMENT = LONGEVITY

- An endowment communicates that your organization will be around for a long time.
- Donors receive assurance that their money will be managed in perpetuity in congruence with their original intent.
- An endowment with the Foundation ensures that the corpus is protected from invasion over the long term.

DONOR BENEFITS

- Speed and convenience for donors. This can be especially important for year-end contributions and situations when stock or real estate is in the process of being sold and time is of the essence.
- Organization is exposed to donors through Foundation publications as well as having a web presence and online donation vehicle through the Foundation (the Foundation absorbs all transaction costs).
- The Foundation has access to legal staff with specific expertise in foundations through the Council on Foundations. Local legal expertise is also utilized for assistance in structuring complex gifts and keeping current on new tax implications for charitable gifts.
- The Foundation has the ability to accept a variety of types of gifts including cash, real estate, stocks, life insurance, and bequests.
- Organization has access to Foundation staff expertise for development support and resources to assist with individual donors.

WHAT'S THE DIFFERENCE BETWEEN AN ENDOWMENT AND AN OPERATING RESERVE?

An operating reserve is a board designated fund which may act like an endowment because an organization chooses not to touch the principal. Principal is, in fact, available to meet emergency needs should the board choose to extend it. Usually operating reserves are managed and invested by the organization's staff and board. However, a permanent endowment is a fund which has a corpus that the organization is not able to invade. Organizations often accomplish this by placing the endowment outside the reach of the organization at a Community Foundation.

WILL HAVING AN ENDOWMENT CONFLICT WITH CURRENT DONOR'S GIVING?

Absolutely not. In fact, the addition of an endowment effort presented to your current donors will encourage them with the foresight of an organization which is planning to stabilize its financial future. It has been demonstrated that dedicated donors do not choose among ways to support their favorite charities, but frequently participate in all of them.

WHO GIVES TO ENDOWMENTS?

Obviously the best candidates are those closest to the organization: current and past board members, committee members, donors, and often, recipients of services. Approaching them for consideration of endowment giving, either current cash gifts or planned gifts, does not annoy them and, in fact, raises endowment support and awareness.

WHAT HAPPENS IF WE HAVE AN EMERGENCY AND NEED THE ENDOWMENT MONEY?

If the fund is a true endowment, the emergency must be solved with other financial resources.

WHAT HAPPENS TO OUR ENDOWMENT IF OUR ORGANIZATION GOES OUT OF EXISTENCE?

For endowments that are held and managed by boards of the establishing nonprofit organization, it is unlikely that the endowment will have survived if the organization has failed. For endowments which are inaccessible because they are held at a Foundation, the charitable earnings will be redirected to the most closely similar cause that can be found in the community.

SHOULD WE SET UP OUR OWN FOUNDATION TO HOLD THE ENDOWMENT?

The creation of a new nonprofit to hold an endowment appears to solve the problem, but in fact does not provide any greater insurance for the protection of principal than board designation. Directors of separate foundations may invade corpus when emergencies arise. In addition, the costs involved in maintaining two separate charitable organizations may erode a good portion of the earnings that would otherwise be directed toward the charitable activity.

IS AN ENDOWMENT THE SAME AS A PLANNED GIVING PROGRAM?

Many use the terms interchangeably, but they really are two separate things. Endowment is a pot of money you build as a nest egg for your organization. Many gifts that go into the pot will be planned gifts.

WHAT IS THE MINIMUM NEEDED TO ESTABLISH AN ENDOWMENT?

Although we don't require a minimum contribution to establish your nonprofit fund, we do not make distributions until the fund has reached \$10,000. Organizations are given a manageable time frame in which to reach the minimum amount (5 years).

WHO WOULD BE MANAGING OUR ENDOWMENT?

The Board of Directors of the Foundation working in conjunction with its Investment Committee. This team of prominent community leaders works closely with financial management experts.

WHAT DOES IT COST?

The Foundation fees for nonprofit endowment funds are **80** basis points (**0.8%**) for funds less than \$1m. Returns are posted net of investment management fees paid to fund manager - avg 45 basis points (.45%).

WHO OWNS THE FUND?

The IRS requires that funds within a Foundation be considered assets of the Foundation; otherwise the Foundation would operate like a bank. When funds are transferred to a Community Foundation, they become the property of the Foundation, along with other endowments that are devoted permanently to the improvement of community welfare. The Foundation holds, manages, and invests the assets of the fund, which are co-mingled with the assets of other funds. The separate identity of each fund is maintained.

While all gifts to the endowment are restricted only for the use of your organization and it receives distributions each year, your organization cannot:

- spend the principal at will (the organization would not do this anyway if the funds were held as a true permanent endowment, or stipulated by the donor)
- remove the funds from the Foundation unilaterally
- direct how assets in the endowment fund are invested

A Community Foundation is expressly designed to outlast individual donors and boards and focus on the ever-changing needs of the local population.