

The Power of Endowment

Planning for the future of your nonprofit organization means planning for growth—and for a permanent and stable source of income. An endowment fund managed by the Community Foundation can be a powerful tool that enables your organization to have a greater impact over time.

What is an Endowment?

An endowment fund uses charitable gifts to build a permanent pool of funding resources that is intended to grow over time through investing. The earnings from this investment provide income for your organization. Endowment funds are also referred to as *permanent funds* because they are intended to grow and grant charitable dollars forever. Unlike contributions your organization receives from donors earmarked for special projects or to be spent immediately, endowment funds are designed to produce many times its original value as the years go on.

It is important not to confuse an endowment fund with an operating reserve. Every organization needs to maintain an active reserve fund that is readily available to meet cash-flow needs and unanticipated operating emergencies. Once an organization or donor places dollars into an endowment fund at the Community Foundation, the gift remains in our care forever so it can be managed efficiently and effectively for long-term growth. You still choose your annual fund distribution each year and the Community Foundation manages the assets with the goal of maximizing distributions each year.

Why Choose an Endowment Fund?

Professionally Managed

Organizations choose to have endowment funds at the Community Foundation because they are assured that gifts will be monitored by objective, well-established professionals who understand how to steward, protect and manage substantial gifts. Creating a fund provides access to a large investment pool that includes asset classes not otherwise available to small or medium organizations. This also means that investment fees will be lower than you might find if gifts were managed independently.

Donors Can Make Substantial and Complex Gifts

Donors are eager to make substantial gifts through the Community Foundation because of its expertise in accepting complex gifts. Most donors who make endowment gifts make those gifts from large assets that may be complex in nature. The Community Foundation staff work with donors and their professional advisors to ensure that unusual gifts such as closely held stock, real estate, life insurance or planned gifts are transferred appropriately in order to benefit their designated organization.

How can an endowment improve organizational efficiency?

Volunteer boards of directors can have varying degrees of financial expertise and changes over time. Not only will the Community Foundation provide consistency and continuity in the stewardship of endowment funds, but we free up your board and staff from the highly administrative and technical issues associated with managing endowments. We can also provide specific informational opportunities that support your endowment-building efforts and outreach to your base of donors. We arm your staff with the information it needs to report back to your board regularly.

How Does An Endowment Fund Grow?

Gifts to an endowment fund are pooled with other funds and invested with a goal of long term growth. The earnings generated from the Community Foundation's investment portfolio create two benefits over time. First, market conditions permitting, initial fund balances will grow allowing for increased capacity in the future. Additionally, annual distributions from the fund will provide an additional source of revenue for the agency.

The following is an example of how a fund can grow over time:

Year	Endowment Fund Value	Annual Distribution for Your Organization	Cumulative Charitable Distribution
1	101,250	4,500	4,500
5	106,408	4,729	23,070
10	113,227	5,032	47,617
25	136,419	6,063	131,109
50	186,102	8,271	309,968

This example shows the impact of an endowment fund that starts with \$100,000. It could potentially produce more than 10 times its original value over its first 50 years (assuming an annual net total return of 8%). Under this scenario, this fund could grant \$309,000 to your organization while also achieving a fund balance of \$186,102.

The Community Foundation follows essential policies for investment practices, monitors its investment portfolio, and adheres to all state and federal guidelines for prudent investment of institutional funds, including the Uniform Prudent Management of Institutional Funds Act.



How To Start An Endowment Fund

First, our staff would like to know more about your organization, your board and your potential for growing an endowment fund. Then, we can talk about two ways to start an endowment fund:

Donor-Initiated endowment fund: Established with gifts from individuals, which may be restricted to specific programs or operational support for your organization	Agency endowment fund: Established with funds from your organization for its benefit, and can be used for supporting your operations or programs
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To learn more about the Community Foundation and how you can partner to build a substantial resource for supporting your organization, call us for more information.