

Frequently Asked Questions by Nonprofit Organizations

What is an endowment?

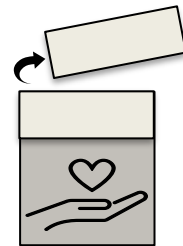
Quite simply, an endowment is a sum of money invested with the goal of generating revenue to help support and enhance the scope of a nonprofit organization's mission. The principal, comprised of all contributions to the endowment, is invested with the intent of being forever preserved. Each year, only a portion of the investment appreciation and income may be spent, while the rest remains invested to foster continuous growth of the endowment. Over time, investment proceeds not only increase the endowment's value but also its distributions, thereby enhancing the organization's mission.



**Contributions to
Endowment**



**Endowment
is Invested**



**Distributions from
Endowment**

There are two primary types of endowment funds:

- 1) **True endowments** typically have terms that are irrevocable and cannot be modified, such as access to the principal, without the consent of the donor(s) or approval by a court.
- 2) **Quasi-endowments**, also known as board-designated endowments, are established voluntarily by a nonprofit organization's board of directors using surplus cash or unrestricted gifts. While they function similarly to a true endowment, the key difference is that the board has the authority to modify the terms, including accessing the principal.



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Why is an endowment important?

An endowment offers several advantages, making it an appealing and enduring investment option for donors.

- An endowment plays a vital role in supporting an organization's long-term vision and helping to ensure its financial stability. It provides support not only for the immediate future or a single generation, but for many years to come, enabling an organization to operate effectively and sustainably.
- An endowment serves as an additional revenue stream, providing stability and flexibility to navigate challenges. By diversifying an organization's revenue sources, an endowment reduces dependence on annual operational fundraising. This is especially valuable amidst decreasing resources, strained budgets, fluctuating economic conditions, and heightened demands for charitable services.
- An endowment offers an attractive option for donors seeking to invest in an organization's future, regardless of their level of support. Donors can be confident that their gifts are dedicated to an organization's ongoing mission, ensuring a lasting impact.

Is an endowment the same as a planned giving program?

An endowment refers to a long-term commitment to perpetually preserve the principal of a fund. While many contributions to an endowment may originate from planned gifts, such as bequests, retirement assets, and life insurance policies, a planned giving program serves as a comprehensive approach to engage donors in making intentional charitable contributions, including those to an endowment.

Who should have an endowment?

An organization committed to serving the community for years to come should consider establishing an endowment.

Will having an endowment conflict with current donors' giving?

It shouldn't. In fact, introducing an endowment effort can demonstrate that an organization is proactively working to secure its financial future. Annual giving and endowment building are two distinct avenues for donor involvement. Experience demonstrates that dedicated donors often embrace various opportunities to support their favorite charities.

When is the ideal time to start an endowment?

The best time to start an endowment is right now, because building an endowment is a long-term endeavor – akin to running a marathon rather than a sprint. An organization should start by raising awareness about the endowment among internal stakeholders, including the board, donors, volunteers, and staff. These individuals, who hold the organization in high regard, may feel honored to contribute to its sustained support for generations to come.

“Establishing an agency fund with Lakeshore Community Foundation is an ideal choice for our organization due to several key reasons. These include the low management fee, the Foundation’s strong credibility, the exposure to the community facilitated by the Foundation, and the minimal involvement required from our Board of Directors to maintain the fund at Lakeshore Community Foundation.”

- Agency Client

How do you determine the appropriate amount for an endowment?

An organization should assess its financial needs and long-term goals to make an informed decision for the success and sustainability of an endowment. Some experts suggest that an endowment should aim to support approximately 20% of an organization's annual operating budget. This level offers a financial cushion and helps promote stability. Alternatively, some organizations strive for their endowment to fully cover 100% of their operating budget. While this goal is ambitious, it can provide a high level of financial security and independence.

Can we manage our endowment ourselves?

While it is possible for an organization to manage its endowment internally, it is important to assess whether this is the most efficient choice. Endowment management consumes staff and board time that could otherwise be directed towards the organization's mission and fundraising efforts. By entrusting the management of the endowment to Lakeshore Community Foundation through an agency fund, an organization can benefit from the Foundation's professional investment management expertise and economies of scale.

This approach offers several advantages, including access to a diversified investment portfolio and lower investment fees typically associated with larger funds. Furthermore, by relying on Lakeshore Community Foundation for the long-term stewardship of the agency fund, it not only ensures efficient management but also enhances your organization's visibility through this strategic partnership.



How do we start an agency fund?

The process begins with the organization determining the desired amount to invest in the agency fund and subsequently working with Foundation staff to complete a fund agreement. The minimum amount required to establish an agency fund is \$100,000.00. Alternatively, an agency fund can be started with at least \$5,000.00 and a commitment to reaching the \$100,000.00 maturity balance within five years. The organization has the flexibility to add any amount to its agency fund at any time.

An organization can contribute from its unrestricted funds or raise funds specifically designated for an endowment. If an organization chooses to combine these funds, it is important for staff to maintain a clear breakdown of the two sources of funds. This practice ensures the proper honoring of donor intent associated with funds specifically raised for an endowment.

Can anyone contribute directly to our agency fund?

Contributions to an organization's agency fund can only be made by the organization itself. Therefore, donors who wish to support the endowment should make their gifts directly to the organization, specifying that the donations are intended for the endowment. Subsequently, the organization can then transfer those gifts to its agency fund at Lakeshore Community Foundation.

“When our Board of Directors made the decision to entrust our endowment to Lakeshore Community Foundation, it was a strategic choice grounded in trust, the strong community presence of the Foundation, and our shared goal of improving the Lakeshore Area.” – Agency Client

How will our assets be disbursed?

When an agency fund is established, a customized fund agreement is created to outline the organization's intentions regarding distributions. Unlike a private foundation, an agency fund managed by Lakeshore Community Foundation is not required to distribute five percent of its assets annually. This gives the organization the flexibility to reinvest any income not currently needed, allowing the endowment to grow at an accelerated pace.

Can we liquidate the agency fund?

An organization may customize recommended distributions from its agency fund. If an organization includes access to principal in its fund agreement, it can request liquidation of all assets in the agency fund at any time as a distribution from the agency fund to the organization. To initiate the liquidation process, a written request must be submitted to Lakeshore Community Foundation, accompanied by appropriate Board authorization and a brief explanation of the reason for the requested liquidation. Lakeshore Community Foundation's Board of Directors must review and approve all requests for liquidation before they are completed.

How frequently do we receive reports on the agency fund?

Once an agency fund is established, the organization will receive quarterly fund statements. These statements provide detailed information on the agency fund's investment activity, including contributions, distributions, and fees. Additionally, quarterly investment performance reports will be provided to the organization.

What happens to our agency fund if our organization ceases to exist?

In such a scenario, an organization has the flexibility to either liquidate the agency fund or redirect the distributions to another qualified charitable organization, as specified in the fund agreement.

Who holds legal ownership of an Agency Fund?

All funds held within a community foundation, including agency funds, are legally owned by the community foundation. However, an agency fund is considered beneficially owned by the organization that created it, which is why assets within an agency fund are classified as an "asset held by others" for financial statement/accounting purposes on the creating organization's Statement of Financial Position. Lakeshore Community Foundation reports the same agency fund assets with an offsetting liability on its Statement of Financial Position.

What are the next steps if we are interested in an agency fund?

Please contact the Foundation with any inquiries and/or to begin the process of establishing an agency fund with the Foundation:

Email: rwiegert@LakeshoreCommunityFoundation.org

Phone: Sheboygan - 920.458.1920 or Manitowoc - 920.682.5222

“We were searching for a solution to generate a sustainable long-term revenue stream to support our mission, but managing our own investments proved to be impractical. Our Board and staff were impressed with the investment expertise at Lakeshore Community Foundation. The process of establishing the endowed agency fund was seamless, allowing us to fully concentrate on our mission.”

- Agency Client