

Agency Endowment Funds

Board members of not-for-profit organizations realize the need to establish stable, predictable sources of income. Just when an organization is needed most by the community, the competition for funds from private, philanthropic and government resources is stronger than ever before. Many organizations are now considering a “funding mix” which will provide financial stability for the future.

An ***agency endowment fund*** at community foundations such as The Greater Kanawha Valley Foundation can act as an income stabilizer. Like personal savings, a permanent fund for an organization can provide a reliable source of additional income each year. This permanent pool of assets generates income and grows over time.

Using The Greater Kanawha Valley Foundation

The Greater Kanawha Valley Foundation can help in establishing and growing an organization’s endowment. Classified for tax purposes as public charities, community foundations exist to manage permanent funds given by donors for the benefit of a specific charitable cause or for the general welfare of the community. A community foundation is often described as a pool of endowed assets.

The Greater Kanawha Valley Foundation can do many things – one is to hold and manage an organization’s endowment fund. In doing so, the Foundation offers these advantages.

- ♦ The fund enjoys the advantage of being invested in a larger pool of assets, which can lead to greater growth, greater income, and lower investment fees.
- ♦ The Foundation handles investment management and oversight; all accounting and financial reporting; and the annual audit.
- ♦ The organization receives a distribution annually according to the Foundation’s Investment and Spending Policy
- ♦ All gifts to the fund are designated for the organization’s use only. While co-mingled for investment, your organization’s fund will not be used for other purposes.
- ♦ The organization’s endowment fund receives exposure in the Community Foundation’s annual report reaching more, and perhaps different, donors than those on its current list. Donors to the Foundation may designate their gifts to be added to your organization’s fund.
- ♦ The Foundation sends the organization a fund statement annually containing information on the fund’s activities during the preceding year. Fund representatives are welcome to call with questions at any time.
- ♦ All gifts are tax deductible at the highest levels allowed.
- ♦ The Foundation thanks donors for all gifts, using appropriate tax related language, and informs your organization about all gifts.

Things You Should Consider

All in all, The Greater Kanawha Valley Foundation is an excellent vehicle for developing an organization's endowment with maximum advantage. A few important items to be considered about an organization endowment are:

1. The IRS requires that funds within a community foundation be considered assets of the foundation, otherwise the foundation would operate like a bank. While all gifts to an organization's endowment are designated only for the use of that organization, and it receives distributions each year, the organization cannot:
 - ♦ spend the principal at will (the organization would not do this anyway where the funds are held as a true endowment),
 - ♦ remove the funds from the foundation unilaterally,
 - ♦ direct how assets in the endowment fund are invested.

In other words, the organization receives the benefits of the income on all gifts to its endowment fund, but does not manage the fund itself.

2. The Foundation invests all its funds with both growth and grants in mind. An organization should expect long-term growth and a reasonable return but not wildly speculative risk or unusually high income.
3. When creating an organizational endowment, agencies should consider whether a portion of the principal should be available for spending. There are advantages to creating a true endowment that does not allow for any invasion of the principal. Donors often find it appealing when making major gifts to an organization that it will not, cannot, be spent on day-to-day expenses that would soon deplete the value of the gift. Members of the organization who have worked hard to raise the major gifts are also pleased to know that their efforts will make a lasting impact on the organization and not be just a temporary cash flow fix. The disadvantage to creating a true endowment is that the monies are not available for an emergency or temporary financial shortfall. There may be sizeable assets in the endowment fund but the organization will not be able to access them to cover the temporary or emergency need.

So, a compelling case can be made to have funding readily available in support of issues that require urgent attention. But an equally compelling case can be made for creating an organizational endowment that can build resources for the future as well as the present.

If you would like more information or if we can be of help in any way, contact Dr. Michelle Foster at The Greater Kanawha Valley Foundation at 304-346-3620.