



# ENDOWMENT FUNDS

WHITEFISH COMMUNITY FOUNDATION



## WHAT IS AN ENDOWMENT?

- Permanently restricted assets. The donations made to an endowment fund can never be spent. Instead they are the “principal” which is invested to grow the assets over time. The earnings on the investment are able to be spent by the beneficiary organization
- The original donation, also known as “principal” or “corpus” may not be spent and is permanently restricted, but may be added to over time with additional donations.
- Earnings/distributions may be purpose restricted
- The goal, or purpose of an endowment fund is to create sustainability by providing a guaranteed income stream in perpetuity
- Governed by Uniform Prudent Management of Institutional Funds Act “UPMIFA”

## PERMANENT VS QUASI ENDOWMENTS

### PERMANENT ENDOWMENT

- **DONOR RESTRICTED**
- Created by direct donations from donors (must be clearly specified)
- Cannot be unrestricted

### QUASI ENDOWMENT

- **BOARD RESTRICTED**
- Created with excess operating funds by board resolution
- Can be unrestricted by board resolution (subject to WCF variance power)

## PERMANENT VS QUASI COMPARISON

	PERMANENT ENDOWMENT	QUASI ENDOWMENT
Restricted by	Donor	Board
Restriction	Permanently restricted	Temporarily restricted
Can funds be unrestricted?	No	Yes, by nonprofit board resolution and WCF board approval
Included on nonprofit's balance sheet?	No	Yes
Held as a liability by custodial foundation?	No	Yes
Investment of funds	Long Term Pool / Perpetuity	Long Term Pool / Perpetuity
Distributions	4% Annually	4% Annually
Does distribution have to be taken?	No	No
Minimum balance	\$30,000 combined	\$30,000 combined
Annual admin fee	1%	1%

## BASICS OF UPMIFA

- Uniform Prudent Management of Institutional Funds Act
- Focuses on preservation of purchasing power of the endowment fund over time
  - For example: \$1 in 1970 is now worth \$6.82. If a gift of \$100,000 was made to an organization in 1970, the fund would need to have a total value of \$682,000 today to maintain that purchasing power.
  - If an organization only focuses on the principal and does not allow for growth, the fund becomes watered down in value
  - Calls for prudent investing as well as prudent spending
  - Conservative spending allows for distributions even in down markets, and even when fund may be “underwater”

## ENDOWMENT SPENDING POLICY

- Whitefish Community Foundation spending policy is 5% (4% distribution + 1% admin fee) of average fund balance over 20 quarters
- Averaging over 20 quarters smooths out ups and downs of stock market and reduces risk of over spending
- Not required to take distributions
- Annual distribution carries over year to year and remains available to spend in the future. It also remains invested until taken.
- Fund balance must be at least \$30,000 to be eligible for distribution. Permanent and quasi balances are combined to reach the minimum.

# INVESTMENT OF ENDOWMENT FUNDS

- INVESTMENT OBJECTIVES
  - Primary Objective: Provide stability in annual grant making ability
  - Secondary Objective: Maintain purchasing power of current assets and all future contributions
  - Time horizon: Perpetuity
- Investment goal is 5yr CPI + 5%
- Strategically structured portfolio diversified across multiple asset classes

## OVERSIGHT OF INVESTMENTS

- **INVESTMENT MANAGER:** MASON INVESTMENT ADVISORS
- **INVESTMENT COMMITTEE:** 9 HIGHLY EXPERIENCED MEMBERS OVERSEE PORTFOLIO AND MANAGERS
- **CUSTODIAN:** TD AMERITRADE
- **AUDITORS:** JCCS



## WHY HAVE AN ENDOWMENT?

- Creates sustainability in perpetuity
- Financial stability provided by annual distribution
- Can take pressure off of fundraising, or free up donated dollars for programs and other projects
- Comforting to donors

## WHEN DOES AN ENDOWMENT MAKE SENSE?

- All operating needs are met
- All reserves are fully funded
- No immediate capital or capacity building needs

## WHAT SIZE ENDOWMENT IS MEANINGFUL?

ENDOWMENT SIZE (avg bal over 20qtrs)	DISTRIBUTION AMOUNT
\$50,000	\$2,000
\$100,000	\$4,000
\$250,000	\$10,000
\$500,000	\$20,000
\$1,000,000	\$40,000
\$1,250,000	\$50,000

## MONTANA ENDOWMENT TAX CREDIT

- Individuals who make a planned gift to a qualified Montana endowment fund will receive a Montana state tax credit of 40% with a maximum of \$10,000 (\$20,000 for joint filers). Beginning in 2024 the maximum increases to \$15,000 (\$30,000 for joint filers).
- Businesses and corporations that make a direct gift to a qualified Montana endowment fund will receive a Montana tax credit of 20%, with a maximum credit of \$10,000
- The Montana legislature has made the credit permanent