



Designated Fund Guidelines

Approved by the Board of Coastal Community Foundation, June 2012

Coastal Community Foundation welcomes the opportunity to partner with donors who wish to create endowments for the perpetual benefit of their preferred charitable organizations. Gifts made to these endowments are managed for the long-term. Once a Designated Fund reaches its minimum endowed amount of \$25,000, a check for the spendable amount of the fund is mailed to the organization each year (or less frequently, if requested by the recipient organization). Coastal Community Foundation currently calculates the spendable (or grantable) amount as 4% of the average balance in the organization's endowment over the 20 most recent quarters.

Reasons for Starting an Endowment

Reasons donors create designated endowments include:

- Giving the organization greater financial stability by providing a permanent source of future revenue for operations;
- Potentially reducing the amount of time spent in annual fundraising;
- Accommodating donors who want to make both major and deferred permanent gifts;
- Responding to changes in giving patterns, donors' motivations and funding sources;
- Ensuring the organization's work may continue for as long as it is needed; and
- Making certain that the donor's wishes are honored in perpetuity.

Benefits of Using Coastal Community Foundation's Services

Many donors and organizations find the set-up and management of an endowment difficult, time-consuming, and expensive. Therefore, they rely on the Foundation to administer their endowment funds. Advantages of setting up an endowment with Coastal Community Foundation include:

- The Foundation's services are economical and administratively efficient;
- Coastal Community Foundation provides professional investment management and fiduciary services with greater diversification, less risk and less cost;
- The Foundation handles all government reporting and regulatory requirements;
- The Foundation offers gift planning assistance;
- No matter what changes occur in the organization's governing board and staff, the fund will be administered as stated in the fund agreement; and

- Coastal Community Foundation's Board of Directors provides knowledgeable oversight of the investment management of all its endowment funds.

Administration

With many years of endowment management experience, the Foundation has well-established procedures for administering endowments.

- Donors may send or deliver cash or other property directly to Coastal Community Foundation. We will record gifts in each donor's name. Thank you notes and receipts are promptly mailed to donors, and the organization is notified.
- Once contributions are deposited in the organization's endowment fund at the Foundation, they are combined into an investment account.
- Gifts are invested in a diversified investment portfolio to ensure safety, growth, and earnings over the long-term with low management costs.
- Each fund is credited for the value of its gifts so that its share of earnings from the investment account can be determined and deposited into the organization's designated endowment fund.
- These earnings, less fees, are paid out to the nonprofit organization as agreed in the fund agreement.
- Checks for the grantable amount are usually sent during the year, depending on the organization's specific need.
- Annual financial reports, indicating the value of the fund, are sent to the donors creating the fund.
- The Foundation files federal form 990 with the IRS each year, reporting on all funds.

Establishing a Fund

Beneficiary organizations: Coastal Community Foundation will create endowments for public charities only. In general, a public charity is a nonprofit organization that derives its funding or support primarily from the general public. Coastal Community Foundation cannot establish endowments solely for the purpose of benefitting a private foundation or an organization that attempts to influence legislation as a substantial part of its activities or participates in any campaign activity for or against political candidates. The Foundation suggests that a donor wishing to create an organization endowment consult with the Foundation's staff if there are any questions concerning the eligibility of the organization.

Fund agreement: Designated fund endowments are created using a simple agreement that

outlines the fund's purpose and how it will operate. Both the donor and the Foundation's president sign the agreement.

Periodically, Coastal Community Foundation staff offers an administration meeting for the organizations with endowments, covering topics such as: investment returns, planned giving, etc. Foundation staff will also meet one-on-one at the organization's request.

Contributions: Designated funds are established with a minimum gift of \$15,000. Additional gifts of any amount may be made to the fund at any time.

Gifts of Closely Held Stock or other Illiquid Assets: Stock from a corporation for which most of the voting stock is held by a small number of shareholders, but which is still publicly traded, is known as **Closely Held Stock**. **Illiquid Assets** are assets that are not easily and quickly converted into money, for example, real estate.

Funds holding Closely Held Stock or Illiquid Assets will be charged the same administrative fees as all other funds at the Foundation. There should be written assurance that the affected fund will have adequate cash to pay administrative fees, either from the investment itself or from further contributions by the donor. All paid dividends will be used to offset all or a portion of the fee charged to the account in the same year ending with the anniversary date of the gift. Dividends will be credited to the designated fund only to the extent that they exceed offsetting fees.

Grantmaking

All grants are to be used for purely charitable purposes.

The U.S. Treasury prohibits a distribution of cash grants to individuals from designated funds. Further, the Legal Department of the Council on Foundations advises against making grant distributions to charitable organizations that will use the grants to benefit individuals or to support non-charitable purposes. Disallowed cash grants to individuals include awards for an individual's achievement (e.g., recognition of literary achievement), as well as awards or prizes to an individual to achieve a specific outcome (e.g., produce a report).

If a donor or an recipient organization is not sure whether a grant may be prohibited, a call should be placed to the Foundation to ensure that the grant is permissible.

Investment Management

Coastal Community Foundation invests assets with due regard for prudent risks, grantmaking objectives, and timing of grants from the fund. The Foundation will invest a designated fund's assets in its long-term pool.

Long-term pool: In this pool the Foundation's primary investment objective is to provide for long-term growth of capital, without undue exposure to risk. This objective is accomplished by investing in a mix of equities, fixed income and cash equivalents that allows participation in rising markets while providing reasonable protection in falling markets. This pool is recommended for funds where the donor's grantmaking objective is satisfied by a long-term spending rate of 4%.

Fund statements: Donors will receive quarterly financial statements reflecting contributions, grants made, income, appreciation/depreciation, fees, and grantable proceeds available for grantmaking. At any other time, donors may call staff for a current report.

Variance Power

A paragraph in the fund agreement used to establish a designated fund states:

The Fund will be the exclusive property of the Foundation and will not be deemed a separate trust held by it in a trustee capacity. It will be administered under and subject to the Foundation's Bylaws, as amended, including its "variance power" which gives the Foundation's Board the ability to redirect funds should the purposes for which they were given become obsolete, as stated in Section 1.170A-9(e)(11)(v)(B), U.S. Treasury Income Tax Regulations.

Variance power ensures that the grantmaking from a designated fund most effectively and continually serves the intended charitable purposes of the fund. This power means that the Board of Directors of Coastal Community Foundation will be responsible for deciding where grants should be directed in the event that the designated organization ceases to exist, merges with another organization, or engages in work that is deemed unnecessary, undesirable, impractical or impossible. Accordingly, the Foundation assures that the donor's wishes are supported in perpetuity. This Board responsibility is one of the chief advantages of creating a designated fund at Coastal Community Foundation.

These policies are designed to protect the interests of donors, beneficiary organizations, and Coastal Community Foundation. Exceptions to these policies may be made with approval of Coastal Community Foundation's Board.