



# Guide to Endowed Funds



Northern Illinois University Foundation

“The greatest use of life is to spend it on something that will outlast it.”

— William James

## WHAT IS AN ENDOWED FUND?



An endowed fund is an enduring, self-sustaining source of funding to support the purposes specified by the donor. Endowment assets are invested for the long term. Earnings are distributed in accordance with the NIU Foundation’s endowment management policy and consistent with Illinois law.

Earnings in excess of the annual payout are reinvested to allow for growth over time and as a hedge against inflation. As your endowment grows, so does the impact of the gift.

## HOW DOES AN ENDOWED FUND HELP NIU?


Currently, only 25 percent of the university's operating budget is state funded. Because state funding for higher education continues to decline, Northern views building its endowment as critical to sustaining the quality of its academic, faculty, and student support programs.

In the 60 years since the NIU Foundation was established, more than 400 endowed funds have been created. Thanks to the generosity and foresight of our donors, these funds benefit NIU students through scholarships, library resources, physical and technological improvements, faculty support, and a broad range of academic, athletic, and other student-focused programs.

For Northern, endowment will mean the difference between maintaining a great university and evolving into an extraordinary one.

Chartered in 1949, the NIU Foundation is an independent not-for-profit corporation. Its mission is to support Northern Illinois University by building the financial resources to advance excellence and enhance the university's capacity to transform lives. As the official philanthropic arm of the university, the foundation is entrusted with raising, managing, and investing NIU's endowed funds.





The NIU Foundation's philosophy is to think long term, making investment decisions based on growth objectives for the needs of the distant future.

## HOW DO ENDOWMENTS WORK?

Endowments are an excellent way to establish a permanent legacy. A gift officer will work with you to create an endowed fund that will meet your philanthropic goals and the needs of the university.

- The minimum level necessary to establish an endowed fund is \$25,000. A “growing to endowed” option is available; that option allows you to reach the necessary \$25,000 over the course of three years.
- An endowment agreement, between you and the NIU Foundation, will be created that documents the use and purpose of your gift.
- Your fund will be invested in a pooled fund with all endowed funds. The NIU Foundation endowment portfolio is diversified to provide a cash flow to benefit current students, faculty, and programs while preserving spending power for long-term viability.
- Each year, a percentage of your endowed fund's 36-month rolling average is distributed according to your endowment agreement. Earnings above the annual distribution and the 1.5 percent administrative fee are retained to maintain the fund's spending power.

## HOW IS THE ENDOWMENT PORTFOLIO MANAGED?

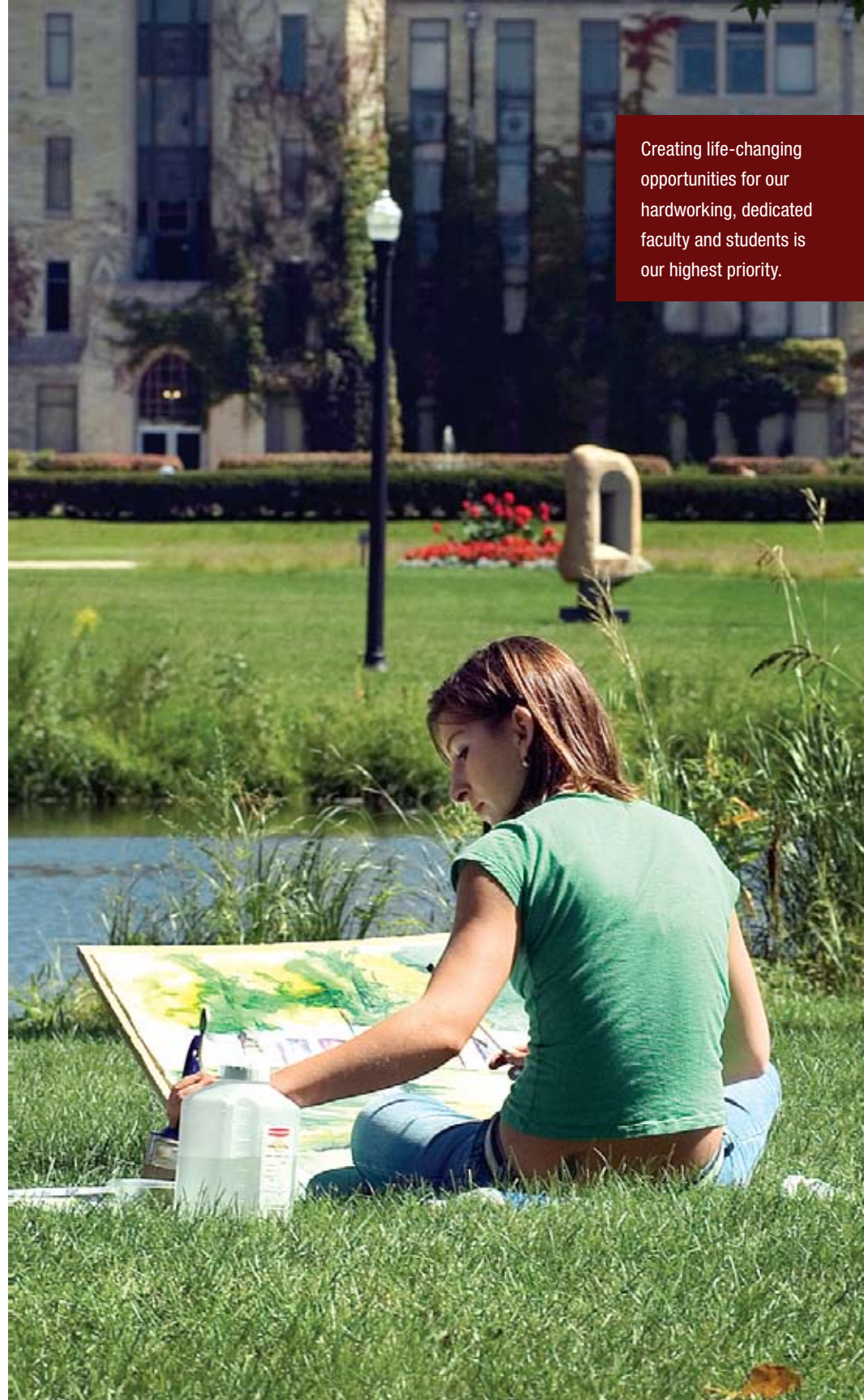
The NIU Foundation Finance Committee manages and oversees the endowment portfolio. This committee retains an independent consulting firm to assist in reviewing investment objectives, determining asset allocation, selecting and evaluating fund managers. This firm also reports on investment performance.

The endowment management policy of the foundation is guided by the following objectives:

- Attain the highest possible total rate of return—including income and capital appreciation—commensurate with the appropriate degree of risk acceptable to the foundation.
- Provide growth of the market value of the principal in excess of the rate of inflation; and
- Generate a cash flow that helps meet the current needs of the university.

Each endowed fund is pooled with all other endowed funds for more effective investment and management. A new fund is added to the pool in the fiscal quarter immediately following the fund's establishment. In such a pool, each endowed fund "owns" shares in the pool based on each fund's size. Investment results and income are allocated to the fund based on these shares. Although a fund's assets are pooled, each fund retains its own separate identity and participates in the total return achieved by the pool. The endowment portfolio is valued each year at the close of our fiscal year, June 30.

## HOW DOES THE ENDOWMENT POOL WORK?



Creating life-changing opportunities for our hardworking, dedicated faculty and students is our highest priority.

Endowments support scholarships, professorships, lectureships, research, the libraries, programs, and endowed chairs.



## AN EXAMPLE

Unlike personal investment portfolios, endowment portfolios are designed and invested with forever in mind. In 1996, the NIU Foundation received a generous bequest to establish the Ruth G. Hart Memorial Fund for student scholarships. The scholarship is named for the donor, who was neither an alumna nor formally associated with Northern, but who had a deep affection and respect for the College of Business and its faculty.

The fund began with nearly \$433,000. It has been invested in the endowment pool and has experienced both positive and negative market returns, and generated a substantial amount of expendable earnings. Just 14 years after the fund was established, its market value has grown to nearly \$525,000.

Since its inception, the Ruth G. Hart Memorial Fund has awarded more than \$265,000 in scholarships to over 200 promising students.

In the words of one of the Hart scholarship recipients, "I am very proud to have received the Ruth Hart Memorial Scholarship. This award has encouraged and inspired me to achieve success in my future career and my dream to make a difference in an organization. I am very thankful to my donor for this opportunity and recognition. It has been a major boost to my confidence and affirmation to my hard work and dedication. Thank you!"

The impact of this endowment and others will continue. Forever.

## WHAT IS THE ENDOWMENT EXPENDITURE RATE AND HOW DOES IT ALLOW FOR GROWTH?

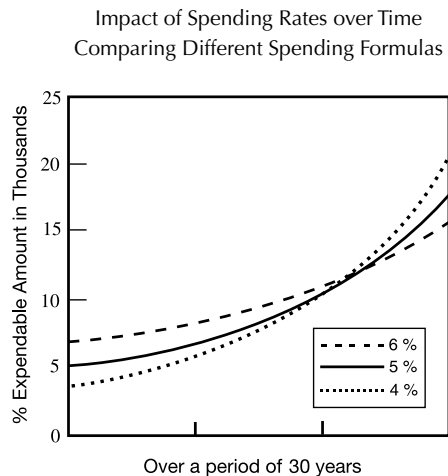
The present expenditure rate, as set by the NIU Foundation Board, is 4 percent of the moving average of the fund's market value at June 30, for the three preceding years.

The expenditure rate is part of the endowment management policy. Each year, the NIU Foundation Finance Committee evaluates and establishes all investment and endowment management policies. All policies are subject to board approval.

In order to provide the same help to today's students as students many generations from now, we must maintain a balanced investment and spending strategy that allows for inflation and fluctuating market conditions over time.

In years when earnings are greater than 4 percent, the excess is invested to help grow the fund.

The graph below demonstrates how a lower rate of spending will, in a relatively short time, result in more money available to support the donor's purpose.



In the final analysis, what really matters is what lies beneath, how the gifts entrusted to the NIU Foundation serve NIU's teaching, research, and public service goals.

ARE THERE  
TIMES WHEN  
AVAILABLE  
FUNDS ARE  
NOT SPENT?

On occasion, funds remain unspent. This may occur when:

- Most, but not all, of the available funds are spent.
- Funds are saved for greater impact in a subsequent year (i.e., to procure technology, library resources, speaker fees).
- There are no students who meet the criteria for an endowed scholarship.
- Funds grow over time, creating more opportunities for new initiatives. These initiatives require time to plan and implement.

Unspent funds may either be rolled over to the following fiscal year or they can be invested in the endowment to help grow the fund. Current policy allows for the rollover of funds unless otherwise requested.

Preserving spending power for long-term viability requires investing a portion of the fund in equities. Given the ups and downs of the stock market, savvy investors understand that a snapshot of a portfolio at a given point in time could reveal a dip below the gift value. However, over the long term, equity investments have consistently demonstrated the growth needed to achieve the donor's objectives forever.

COULD THE  
MARKET VALUE  
EVER FALL BELOW  
THE HISTORIC  
GIFT VALUE?



WHAT ARE  
THE MINIMUM  
ENDOWMENT  
LEVELS?

**Dean's Chair**  
\$2 Million

**Chair**  
\$1 Million

**Professorship**  
\$500,000 - \$750,000

**Visiting Professorship**  
\$250,000

**Lectureship**  
\$100,000

**Graduate Fellowship**  
\$150,000

**Scholarship**  
\$25,000

**University Scholars**  
\$250,000

**Library Collections**  
Foundation Level - \$25,000  
Instructional Support - \$100,000  
Research Support - \$250,000  
Comprehensive Support - \$500,000

**Department/School/Center/College**  
Funding level determined by the appropriate academic administrators, the university president, and the chief development officer



Northern Illinois University Foundation