

# Nonprofit Endowment Fund FAQs

See below for the most commonly asked questions as they pertain to nonprofit endowments.

## **WHAT IF THERE IS AN EMERGENCY AND WE NEED TO TAKE MORE THAN OUR INVESTMENT EARNINGS? ARE WE ALLOWED TO TAKE FROM THE PRINCIPAL?**

The short answer is no. Agency endowment funds are governed by a binding, legal document (fund agreement) that is approved and signed by nonprofit representatives at the creation of the fund. Unlike a board designated/quasi endowment, this agreement states that these funds are irrevocable for the purpose of providing support to the nonprofit.

## **WHY DOES MY NONPROFIT RECEIVE REPORTING ON TWO FUNDS WHEN WE ONLY OPENED ONE?**

Accounting standards provide guidance for reporting of agency endowment funds in separate accounts in order to segregate the funds for financial reporting purposes. Donations received by the Community Foundation are segregated into two funds:

- **Agency Fund #1 (donations received from individuals and unrelated parties); and**
- **Agency Fund #2 (donations received directly from the nonprofit itself).**

A single fund agreement governs both Fund #1 and Fund #2 as though they are one fund even though financial reporting requirements require accounting for the funds separately.

## **WHAT HAPPENS TO OUR ENDOWMENT IF MY NONPROFIT GOES OUT OF BUSINESS?**

As part of the fund agreement, the Community Foundation retains what's called 'variance authority' over the monies. In circumstances where the nonprofit no longer exists, the Community Foundation board will redirect the distributions from the fund to another nonprofit with a similar charitable purpose.

## **IF YOU'RE TAKING A FEE EACH YEAR FROM MY FUND, HOW WILL IT EVER GROW?**

The Community Foundation's investment objective on endowment funds is to provide a desired annual return of 7% measured over long periods of time. This allows for protection of the principal while paying out an annual distribution of 4 to 5% (exact amount is set annually by the Investment Committee), covers annual administrative fees, and takes into account growth of the endowment for inflation protection.

## **WHO OWNS THE FUND AND HOW ARE THE FUNDS ACCOUNTED FOR?**

Nonprofit funds are legally owned by the Community Foundation and are accounted for in accordance with the Statement of Financial Accounting Standards No. 136. To comply with this standard, the Community Foundation records an offsetting liability for the fair market value of the agency nonprofit funds. Organizations report the fair market value of fund #2 as a beneficial interest in an asset held by the Community Foundation. We encourage you to seek guidance from your accountant or auditor for clarification.

## **WHY WOULD A DONOR CHOOSE TO LEAVE MONEY IN THEIR WILL OR INVEST IN AN ENDOWMENT FOR LOCAL ORGANIZATIONS THROUGH THE COMMUNITY FOUNDATION RATHER THAN GIVING DIRECTLY TO THE LOCAL ORGANIZATION?**

Donors may feel more comfortable leaving money for the benefit of their favorite organizations through the Community Foundation and they see the value in giving for sustainability over the long-term. The Community Foundation of Greater Fort Wayne has a 100-year history of meeting donors' wishes and building long-term, revenue producing endowment funds to benefit the community forever.



**DO WE HAVE TO TAKE A DISTRIBUTION FROM OUR FUND EACH YEAR?**

No. You may choose to take the investment earnings from your organization’s fund in any given year or, if you’re having a great year, you may choose to roll this back into the principal to encourage further growth of the fund.

**WHY WOULDN'T WE JUST SET UP OUR OWN FOUNDATION TO HOLD OUR ENDOWMENT?**

The administration of a public or private foundation requires significant expertise, staffing and financial resources that could otherwise be used to further your organization’s mission. Establishing another entity may not protect your assets from a future board that wants to direct endowment funds toward another use.

**DOES A FUND AFFECT OUR STATUS FOR GRANT FUNDING FROM THE COMMUNITY FOUNDATION?**

No. Organizations with a fund at the Community Foundation of Greater Fort Wayne are still eligible to apply for grant funding but are not favored over other organizations in the grant process.