

# Agency Fund FAQs

## **HOW DO I START AN AGENCY FUND?**

Establishing an agency fund is an easy process that results in a two-page fund agreement outlining our relationship.

## **WHAT IS THE COST TO MY AGENCY?**

The Community Foundation charges an annual administrative fee based on assets. These fees support ongoing administration of charitable funds and are charged monthly.

## **WHEN CAN WE WITHDRAW DISTRIBUTIONS FROM THE FUND?**

You may choose to receive a distribution from your agency endowment fund once a year, multiple times during the year, or not at all (annual distributions are not required). A member of our staff will be assigned to your fund, and you may communicate your preference or any change in distribution timing in writing to that staff person.

## **HOW DO YOU CALCULATE THE AMOUNT AVAILABLE FOR DISTRIBUTION?**

The Foundation's standard "spending policy" is 5% of the daily value of the fund assets averaged over up to three calendar years. This formula ensures the ability of the fund to make distributions in perpetuity, evens out the available distribution amount during market fluctuations, and allows your agency fund and the distributions it makes to increase in value over time.

## **HOW WILL YOU KEEP US INFORMED OF THE FUND'S ACTIVITY?**

An annual Statement of Activities – which details contributions, investment performance, administrative expenses and fund balance for the prior calendar year – will be available in late February. Gift and grant-making detail is also available. These statements currently are mailed to the agency. You can obtain a month fund statement or fund summary – including contributions made to the fund and distributions made from the fund – 24 hours a day through our online Donor Services, a password-protected area of [cfoxvalley.org](http://cfoxvalley.org).

## **HOW WILL THE FOUNDATION ACKNOWLEDGE GIFTS TO THE FUND?**

Most nonprofit agencies prefer to receive contributions directly and then forward some or all of those gifts to the Foundation in a single transfer. In that case, the Foundation will acknowledge the agency's gift and the agency, in turn, should acknowledge its supporters' gifts. Donors may also contribute directly to the agency fund, an approach particularly useful for gifts of stock or real estate, or more complex types of gifts. Gifts made directly to the agency fund will be acknowledged by the Foundation.

## **CAN WE WITHDRAW MONEY FROM THE FUND IN A FINANCIAL EMERGENCY?**

You should work to build up an operating reserve to address a financial emergency. A true endowment is intended to support an organization over the long term. There are countless historic examples of "borrowing" against an endowment or using other creative accounting techniques to invade principal with full intentions of repaying it. Rarely are they successful. Generally, if an organization does not have sufficient operating reserve and community support to weather a financial crisis without invading its endowment, then even invading its endowment will not be enough to save it – and the endowment will be gone forever.

## **WHAT WOULD HAPPEN TO OUR ENDOWMENT IF OUR ORGANIZATION WERE TO GO OUT OF BUSINESS?**

The Community Foundation Board of Directors has "variance power" to vary the use of a fund if continued adherence to any condition or restriction becomes "unnecessary, incapable of fulfillment, or inconsistent with the Foundation's charitable purposes or the needs of the community served by the Foundation." If your organization ceased to exist, the original purpose of gifts to your endowment would become "incapable of fulfillment," and the Community Foundation Board would have the responsibility to redirect the distributions to benefit the community in a way consistent with the intentions of the donor(s). The fund agreements that establish and govern the management of endowments at the Community Foundation state that the Foundation's Board has "the power and the duty" to make those modifications. We will work with you in creating the fund agreement to identify permissible successor recipients, if your charter requires.

## **WHO LEGALLY OWNS THE FUND?**

In order for donors to claim a tax deduction for their gifts to the fund, the IRS requires that contributions held within a community foundation legally be considered assets of the community foundation. The Community Foundation for the Fox Valley Region's legal ownership of the fund is consistent with our "variance power." Accordingly, the agency cannot spend principal at will, remove funds from the Community Foundation unilaterally or direct how assets in the endowment fund are invested. This arrangement generally is attractive to donors because the involvement of the Community Foundation brings with it expertise in managing endowments and public oversight through a volunteer Board of Directors.

## **HOW DO WE REPORT THE ASSETS OF OUR AGENCY FUND?**

Financial statement reporting for agency endowment funds is subject to Financial Accounting Standards Board Accounting Standards Codification Topic 958 (formerly FASB Statement 136). In general, the Community Foundation records the funds as an asset and a liability on its books. The agency should record a beneficial interest in assets held by the Community Foundation as an asset. The asset value would be equal to the value of the endowment as of the date of the financial statement. Contact our Finance Department for further explanation.

## **CAN OUR ORGANIZATION EVER GET ITS MONEY BACK?**

Generally, no. In rare instances and with the approval of the Community Foundation's Board of Directors, legal ownership of the fund assets may be transferred to a similarly tax-exempt endowment if circumstances warrant.

**If you have any questions regarding your fund, or you simply need clarification, please call us at 920-830-1290.**