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Agency Endowment Frequently Asked Questions

Q: Is an endowment an operating reserve?

A: No. An organization should have a readily accessible operating reserve account to cover somewhere between 3-6 months of its basic expenses in an emergency. An operating reserve is a Board designated fund that may act like an endowment because the Board chooses not to expend the principal for current operations. However, the principal is, in fact, available for use if the Board chooses to spend it. The principal of a true endowment cannot be spent – donors to such a fund can be confident that their gifts will truly support the organization in perpetuity.

Q: What if we have a financial emergency?

A: An operating reserve should be built up to provide support in the event of an emergency. In a true endowment the emergency must be solved with other financial resources. If it is a board designated endowment there are countless historic examples of 'borrowing' and other creative accounting techniques which invade principal with full intention of repaying it, but which ultimately are rarely 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 forever gone.

Q: What would happen to our endowment if our organization should someday go out of business?

A: 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 "incapable of fulfillment, or inconsistent with the charitable or other exempt purpose of the Foundation 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 charitable payouts to benefit the community.

According to fund agreements, the legal documents that establish and govern the management of endowments at the Community Foundation, if a fund were terminated for such reasons, the Foundation would be obligated to "distribute any remaining assets in the Fund exclusively for charitable purposes that: (a) are within the scope of the charitable purposes of the Foundation's Articles of Incorporation; and (b) most nearly approximate, in the good faith opinion of the Board, the original purpose of the Fund."

Q: How do we know how our fund is doing (performance)?

A: The Community Foundation sends fund statements twice a year. The cover letter reports on the overall performance of our investment program, and the fund statement itself shows how your agency fund has been affected. The fund statement also shows total gifts, grants, and fees applied to your fund.

Q: Why do we receive multiple fund statements each time? How does the fund fit in with our accounting?

A: FAS 136 addresses accounting of agency funds held within community foundations.
It was developed in response to concern that non-profits were under-reporting assets and that government might step in with new regulations; the Financial Accounting Standards Board developed FAS 136 to provide clarity on how to present agency endowments, for more accurate disclosure of assets available to not-for-profits. The standard applies to funds held for agencies at partner funding organizations like community foundations and United Ways.

This is how it works: Gifts received directly from an agency are recorded in the "agency fund" portion of the fund and must be shown on the agency's own books. Gifts received from donors directly to the Community Foundation are posted to the "community fund" portion of the fund and do not need to be shown on the agency's books. Legally the "agency fund" portion and "community fund" portion are part of the same fund, but they are separated for accounting purposes. Your auditor will want the information about the "agency" portion of your endowment as per FAS 136. The Community Foundation's auditor audits all of its assets.

Q: Who "owns" the fund legally?

A: The IRS requires that funds held within a community foundation be legally considered assets of the community foundation. The agency receives the benefits of the earnings on all gifts to its endowment, while not needing to manage the fund itself. The community foundation's legal ownership of the fund is consistent with its "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 is generally a plus with donors, since it is a community foundation's expertise to manage endowments, and we are a public charity whose mission and motive is to serve the community. An agency Board is more at risk of neglecting an endowment, invading it shortsightedly, or using it improperly, since agencies must rightly focus most of their energies on providing programs and services and meeting immediate funding needs.

Q: Is an endowment the same thing as a planned giving program? Can the Community Foundation help us with planned giving?

A: Many use the terms interchangeably, but they really are two separate things. Endowment is the pot of money you build as a nest egg for your organization. Many gifts that go into the pot will be planned gifts, loosely defined as out-of-the-ordinary gifts that require careful estate and financial planning on the part of the donor. The Community Foundation is happy to assist donors contemplating planned gifts to your endowment. We also work closely with attorneys, financial advisors and other professionals in our community who assist clients with estate planning.

Q: Will the Community Foundation help us raise funds for our endowments?

A: The Community Foundation will not generally develop new donor relationships specifically for the purposes of cultivating gifts just to your fund. We do periodically provide tools specifically to help agencies cultivate endowment gifts, such as the sample bequest language for your endowment you can share with supporters. The Community Foundation's credibility as a manager of endowments, and our ability to accept a wide variety of gift types, may certainly help attract donors.

The Foundation will help introduce the general public to the existence of your endowment through our marketing and public relations efforts. We are always happy to provide courteous service to donors who self-identify, or whom you bring to us, who are interested in exploring a major gift to your fund. In addition, from time to time we may personally cultivate some past donors to your fund for estate gifts – if we already have a relationship with that donor and/or if we identify a past donor to your endowment as a particularly strong candidate for an estate gift.

The Foundation can be an excellent partner for cultivating and stewarding donors to your endowment. However, we work with many agencies and have varying fundraising priorities based on our own mission (including building community grantmaking funds). We cannot substitute for the efforts of your own board and staff to make the case for support of your endowment.

Q: Does endowment-building conflict with annual fundraising?

A: Not if you plan for it. In fact, the addition of an endowment effort presented to your current donors will encourage them with the foresight of an organization which is planning to stabilize its financial future. Experience demonstrates that dedicated donors do not choose among ways to support their favorite charities, but frequently participate in all of them.

There are different approaches to endowment-building. A deadline- and incentive-driven campaign may be more likely to attract gifts from income rather than assets, and thus requires more careful coordination with annual fundraising.

A campaign approach to endowment is not right for every agency, but it can be very effective if you plan carefully, reminding donors you still need their annual fund gifts, and strategizing on which donors to solicit, so that annual fundraising goals will continue to be met.

An agency that has values-oriented donors but is not ready for an endowment campaign can focus solely on promoting estate gifts. Though more complex than gifts from income, planned giving arrangements can provide additional financial and tax benefits to donors and their families, and such techniques make larger gifts possible—so it helps everyone for an agency to educate supporters about planned giving options. This can be as simple as sharing sample bequest language in your newsletter periodically or posting it on your web site. Remember, there is always someone who cares about your mission who is in the process of establishing an estate plan. All agencies with endowments should continually offer donors information about their endowments, so the message reaches people at the right time for them.

Q: Is our organization well-positioned to build its endowment?

A: An organization that is ready to successfully build endowment is one that:
- Understands its core mission and has a long-term vision for its work
- Constantly develops board/staff leadership and renews its strategic plan
- Has a solid track record of accomplishments
- Is financially stable
- Has a loyal donor base

Q: Should we develop goals or policies about our endowment?

A: Some organizations find it effective to set a goal based on how much of your annual operating budget you would like your endowment to cover. Since you are working with the Community Foundation, you will not need to develop your own policies regarding investment, fund distributions, or gift acceptance, with one important exception: an easy way to ensure steady growth of your endowment is to set a policy for the treatment of large unrestricted gifts (such as estate gifts that may not have been designated for your endowment). For example: "In order to build our endowment, 25% of all undesignated gifts over $5,000 will be allocated to the endowment, and all undesignated memorial and tribute gifts will be allocated to the endowment."

If you have further questions, please contact our office at 434-793-0884.

Disclaimer: this information is intended to provide general guidance and is not a substitute for professional counsel of your attorney, CPA or financial advisor.

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