



community foundation
Holland/Zeeland Area

Agency Fund Handbook

Welcome!

Thank you for your interest in establishing an **Agency Endowment Fund** with the Community Foundation of the Holland/Zeeland Area (CFHZ)!

The purpose of The Community Foundation of the Holland/Zeeland Area's Agency Endowment Fund program is to create an opportunity for local charitable organizations to partner with CFHZ by building their own endowment funds to support their long-term objectives. A perpetual source of financial stability is offered in the form of yearly revenue grants from the interest earned on the endowment. CFHZ provides investment management and administration services, allowing you to focus on your mission.

This handbook is designed to explain the Foundation's procedures and overall objectives, and to answer the questions you may have about an Agency Fund. It is our goal to make your partnership with the Foundation as rewarding as possible.

How do we start an Agency Fund?

When your board decides to start a fund, a recommendation to establish the fund will be made to our board of trustees. Once approved, we require a signed Agency Fund Agreement along with a minimum check amount of \$10,000 made payable to CFHZ. The fund agreement will include the name and address of the organization, the fund name and a brief description of the charitable purpose for the fund (usually the mission of the organization). We will deposit the contribution into a "founding fund", defined as money donated by the nonprofit for its own benefit.

In certain instances, a nonprofit may not have the financial stability to start their own fund. If an organization has a donor or donors willing to contribute directly to the foundation to establish the fund on behalf of and for the benefit of the agency, a Donor Designated Agency Fund agreement between the donor(s) and CFHZ would be required instead. This type of fund functions essentially the same way as an agency endowment fund described herein.

Can anyone contribute to our Fund?

Yes, unrelated third party donors, businesses, estates and even other organizations may contribute to your fund by making their checks payable to the Foundation identifying your fund in the memo section. All third party donations are considered permanent contributions and are accounted for in a separate "endowment" fund bearing the same name as the "founding" fund. Gifts to the agency endowment fund are eligible for the State of Michigan Tax Credit.

Why are there two Funds when we only signed one agreement?

The reporting of financial information is determined by the Financial Accounting Standards Board, which requires that CFHZ account for the funds that originate from the nonprofit organization separate from those that are contributed by unrelated third party donors. We combine the value of the funds for our annual report, but are required to maintain the value of the founding fund separate for audit purposes. Although founding funds are presented as an asset, they will also be shown as a liability on the financial statements of the Foundation and should be included as an asset on the financial statements of the nonprofit. This distinction is for financial reporting only and has no legal impact on the ownership of the assets identified as “agency founding funds.”

How will donors hear about our Fund at CFHZ?

We will include your Agency Fund in our annual report listing and on our website, as well as on a list we provide area accountants and professional advisors who assist clients with charitable giving options.

It is significant that you share with your board, donors and friends not only the existence of the fund, but also the tax credit advantages and importance of growing your agency endowment fund at CFHZ. You may advertise the fund on your website, in your newsletter, in your annual giving letter, or other marketing strategies that may be unique to your organization.

Is there something special we should communicate to our donors?

Donors may be reminded to continue to support your organization directly with the operating revenue needed to sustain your mission and then encouraged to help sustain the long-range needs by contributing to the CFHZ Agency Endowment Fund.

Donors should be clearly informed that if giving direct to CFHZ, their endowment gifts are held by the foundation for long term investment outside the control of the agency. It is important that agency materials make appropriate representations and for that reason we request a copy of solicitations materials for our review prior to printing or distributing.

How can donors give to our Fund at CFHZ?

Donors wishing to contribute to your fund should make checks payable to CFHZ and mail their contributions directly to the Foundation. They should include in the memo area the name of your agency fund to clearly designate their intent to contribute to your endowment fund. Donor intent should be clearly identifiable and recorded.

Can we collect the checks for our fund at our office?

Yes, if you prefer, you may collect the donations provided that checks are payable to and cashed by CFHZ. It is crucial that checks are deposited in a timely manner and any contributions collected should be promptly turned over to CFHZ for deposit.

What types of gifts are accepted by the Foundation?

Cash gifts are the most common, however, in many cases, significant tax benefits can be realized through gifts of appreciated stock or real estate. We also accept credit card donations, life insurance designations, IRA's, bequests, and life income arrangements. We encourage you to let donors know about the variety of gifts that could make giving on behalf of your organization simple and worthwhile.

If donors plan to make a stock gift, please have them contact us. The Foundation has accounts with many brokers, and most likely has an account with their broker. We will provide the necessary transfer instructions and sell the securities for credit to your Fund.

Could our agency fund benefit from estate planning gifts?

Yes, by creating a Fund with us you have already made it possible for donors to leave a permanent legacy that will forever benefit your nonprofit organization. Donors dedicated to your organization or board members may suggest your Fund in the Foundation as an appropriate memorial upon the death of a family member.

It is also simple for donors to add to your fund by bequest. They may simply name CFHZ as one of the beneficiaries of their will or trust, and specify the name of your fund as the end recipient. Or they may create a new Fund(s) bearing their family name or in honor of a relative or friend to serve as a memorial to them. Grants will be made in the name of their Fund to your organization in perpetuity.

How will we know if donors are giving to our Agency Fund?

Approximately 5 weeks following the end of a quarter, you will receive a fund statement of activity that will include the names, addresses and amounts of any contributions received to your fund during the quarter.

Should we send donors a receipt for their donation?

No. For tax purposes and to be eligible for the State of Michigan Tax Credit, all charitable receipts need to be issued by CFHZ. We mail a thank you letter and official tax receipt within a week of receiving the check into our office, which lets donors know that the benefitting nonprofit will be notified of their contribution following the end of the quarter. Organizations may choose to acknowledge donors once they receive their quarterly report, which is encouraged as long as it is not in the form of a tax receipt.

How is our Fund invested?

The Board of Trustees has the ultimate responsibility for the Foundation's investment portfolio. The Board delegates responsibility to the Investment Committee for implementing and ongoing monitoring of the Foundation's investment policy. The Investment Committee meets quarterly and is comprised of local business and financial leaders in our community. The Community Foundation of the Holland/Zeeland Area is audited annually and its report as well as the Form 990 or 990-T is available upon request or on our website as a PDF file. A complete investment profile is available upon request.

How and when will we receive our annual revenue grant?

The annual spending policy is calculated each year based on 4% of the average 12 quarter market value ended September 30. We notify agencies by January of the amount available for the current year and request they return a form to either request the funds, keep the amount in the non-endowed, net income balance, or to transfer the amount into the principal endowment fund balance. Those requesting checks should expect to receive payment by April following approval by the CFHZ board of trustees..

New Funds are eligible for revenue grants after a minimum of 8 quarters or until enough accrued income may accumulate before grants are allowed, with the goal of protecting the principal of the endowment to ensure long-term sustainability.

What fees are charged to my Fund?

Each Fund held by the Foundation is charged an administrative fee to help cover the operational costs of the Foundation. The typical administrative fee for an Agency Fund is 1% annually. Administrative fees are assessed quarterly, based on the average market value of the fund. Agency funds may qualify for a reduced tiered-rate fee and should refer to our formal fee schedule for the fund balance levels required for a reduced fee.

Are there special reporting requirements we should be aware of?

FAS 136 impacts financial statements prepared in accordance with generally accepted accounting principles. For tax purposes, the activity of agency funds requires a nonprofit organization to disclose when it transfers assets to a community foundation and specifies itself as the beneficiary. It must make the following disclosures:

- ◆ The identity of the recipient organization (i.e. The Community Foundation of the Holland/Zeeland Area) to which the transfer was made;
- ◆ That variance power was granted and the terms of the variance power (the foundation has the right to redirect the return to another beneficiary without the approval of the donor, the agency, or any other party if distributions to the agency become unnecessary, impossible, or inconsistent with the needs of the community);
- ◆ The terms under which amounts will be distributed to the agency;
- ◆ The aggregate amount recognized in the statement of financial position for those transfers and that the amount is recorded as another asset as “beneficial interest in assets held by others.”

Will we have access to the principal balance of the Fund?

A nonprofit organization establishing a fund gives up its rights to legal control over a fund when it makes a “founding fund” gift to CFHZ. The asset becomes the property of and under the full legal control of CFHZ upon establishment of the fund, as required by IRS regulations to maintain the CFHZ’s status as a public charity. In addition, the CFHZ’s board assumes control of investments and disbursement of assets within an agency fund.

The endowment fund balances are permanent and access is restricted. However, nonprofit organizations may request a distribution from the non-endowed fund balance—either from the founding fund or the net income balance of the agency endowment fund. The final decision on whether to grant such a request rests entirely within the discretion of the CFHZ’s board. There may be situations in which it would be a violation of the board’s fiduciary obligation to grant a request. This could occur, for example, if the organization has run into management difficulty, is overspending its means, and shows no promise of reform. The CFHZ board has authority to transfer fund assets back to a nonprofit, just as it was within the authority of the nonprofit organization’s board to initially transfer assets to CFHZ. The CFHZ board may vote to transfer fund assets if it determines the transfer to be in the best interest of the community.

Will I receive an accounting of my Fund's activities?

Yes, in addition to the quarterly reports, you will receive an annual Fund Statement each February. Audited financial statements are available on request or on our website.

For Further Assistance

Thank you for giving the Community Foundation of the Holland/Zeeland Area the opportunity to explain more about your Agency Fund and how it will function as a component fund of CFHZ.

We hope this handbook serves as a helpful guide to your Agency Fund with CFHZ. Please contact us for any other information we can provide or suggestions on how we may serve you better. We can be reached by phone at 616-396-6590 or by fax at 616-396-3573.

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