



community foundation
Holland/Zeeland Area

NONPROFIT FUND HANDBOOK

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Welcome

to Nonprofit Funds at CFHZ.

You have joined a community of other nonprofits, individuals, families, and businesses committed to improving the lives of people here in the Holland/Zeeland area and beyond—**today, tomorrow, and forever.**

We want to be responsive, adaptive and helpful. Please contact us with your fund-related questions not answered in this guide.

Call email or stop by at any time.

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Strengthen Your Nonprofit

We're here to strengthen your nonprofit by providing:

- Annual distributions of earnings that you can take by check, defer to a subsequent year, or re-invest in your fund(s).
- Fund management services. We invest the funds so you, your staff and board can focus on your mission and endowment building. We also manage the operational details—including gift acceptance and receipting, accounting, and reporting.
- We relieve you of handling more complex gifts such as gifts of privately held stock, mutual fund shares and real estate.
- Planned giving and Nonprofit Reserve Fundraising support. While the Community Foundation does not serve as your fundraiser, our experienced staff is available to consult with you, your board and its committees, and donor prospects about planned giving and endowment strategies and techniques.
- Enhanced donor confidence. By entrusting your endowment to the Community Foundation's Investment Committee and its professional investment advisor, you signal that you take asset management, endowment building and your future seriously. You also align with a trusted community partner.

Two Fund Options Two Purposes

Depending on your nonprofit's circumstances, you may establish either a nonprofit reserve fund or a nonprofit endowment fund—or both.

NONPROFIT RESERVE FUND

Perhaps you've identified resources that you've held for an unspecified purpose in the future, wish to benefit from professional investment, and yet keep the funds liquid. A nonprofit reserve fund at CFHZ is the answer. Opened with your nonprofit's own funds, your reserve fund provides you access and growth while serving as your long-term savings account. These funds are non-endowed and available to request, subject to approval by both your board and CFHZ's.

NONPROFIT ENDOWMENT FUND

Alternately, perhaps you wish to launch an endowment campaign or establish a legacy society allowing your nonprofit's valued donors an opportunity to provide for your future sustainability. Gifts meant to last forever and legacy/estate gifts belong in your nonprofit endowment fund at CFHZ where we invest them for future growth, providing your agency an annual revenue stream in perpetuity. It represents a long-term investment account.

The Financial Accounting Standards Board governs the reporting of financial information, and its standards require that CFHZ account for and distinguish the funds the nonprofit provides (reserve fund) and those third-party donors contribute (endowment fund). For audit purposes, the values of these funds are separated though we list the funds as one in our annual report.

Note: From an accounting standpoint, nonprofit reserve funds are considered a liability on CFHZ's financial statements and as an asset on your financial statement. See page 9 for further detail.

Starting Your Fund(s)

NONPROFIT RESERVE FUND

With your board's concurrence (and also that of CFHZ's Board of Trustees), you may choose to fund your own nonprofit reserve fund. Your reserve fund contains only those dollars your nonprofit has given to CFHZ exclusively for your own nonprofit's benefit. All future gifts made by your nonprofit belong in your reserve fund. Unless you've specified otherwise, its balances are non-endowed and available for you to draw upon with the approval of the CFHZ Board of Trustees.

Unlike your nonprofit's operating reserves which backfill for operational shortfalls, your nonprofit reserve fund at CFHZ serves as your long-term savings account for emergencies or special circumstances.

Your nonprofit may start a fund at CFHZ with a minimum balance of \$10,000. The minimum balance may be met by combining the balances of your reserve and endowment fund.

NONPROFIT ENDOWMENT FUND

Third party donors—individuals, estates, businesses and other organizations—may provide for your future by contributing to your nonprofit endowment fund. All such gifts, unless the donor(s) specifies otherwise, are considered permanent, irrevocable contributions, i.e. endowed funds.

Accessing Nonprofit Fund Balances

NONPROFIT RESERVE FUND

Your initial deposit in your reserve fund, along with all subsequent gifts to that fund, are non-endowed and may be requested, subject to the approval of your board and CFHZ's. Your board chair must sign off and provide board minutes that document the requested grant from the reserve fund. (Note: Board approval applies only to grants above and beyond the regular spending policy distribution.)

NONPROFIT ENDOWMENT FUND

Unlike your reserve fund, your initial deposit in your nonprofit endowed fund, along with all subsequent gifts to that fund — unless specified otherwise by the donor — are endowed and held in perpetuity. CFHZ's spending policy annually allows for 4% of the fund to be available for distribution. The spending policy is designed to provide a predictable stream of dollars for your nonprofit while also prioritizing the preservation of principal. The current spending policy formula is calculated as 4% of the average balance in the fund for the previous 12 quarters.

Because potential raiding of endowed funds would erode donor confidence, violate donor intent, and jeopardize the long-term health of your nonprofit, endowed funds must remain restricted and in place.

When establishing a nonprofit fund of either type, you relinquish legal control over the fund. The asset becomes the property of and under the full legal control of CFHZ, as required by IRS regulations to maintain CFHZ's status as a public charity.

Gifts to Your Fund(s)

NONPROFIT RESERVE FUND

With your nonprofit fund established, we encourage you to grow it by contributing agency money as it is available.

NONPROFIT ENDOWMENT FUND

Third party donors may give to your nonprofit endowment fund, making their checks payable to CFHZ and identifying your endowment fund's name in the check's memo line. Alternately, you may collect donors' gifts intended for your nonprofit endowment fund and forward those checks to CFHZ for deposit in your fund. To do so, ensure checks are payable to CFHZ and then send them to us promptly.

In many cases, donors realize significant tax benefits through gifts of appreciated assets—stock or real estate are the most common—transactions we can handle on your behalf.

If your donor(s) plans to make a stock gift, please have him/her contact us. The Foundation has accounts with many brokers, perhaps one your donor(s) uses. We will provide the necessary transfer instructions and, upon receipt, sell the securities for credit to your fund.

We also accept credit card gifts, life insurance designations, IRA gifts and designations, bequests, and life income vehicles such as charitable gift annuities. We encourage you to alert your donors to the variety of gifts they could make on your behalf.

ACKNOWLEDGING GIFTS TO YOUR FUND(S)

When a gift is made to your fund, you will be notified and provided with the donor information, unless the donor has requested to be anonymous. You can also view your account activity online through Donor View. The Foundation issues all charitable receipts on your behalf. We mail a thank you/tax receipt letter to your donors within a week of depositing the gift in your CFHZ nonprofit endowment fund. This letter informs donors that you have been notified of their contributions. Because CFHZ issues tax receipts to your donors when we receive their gifts, please ensure your acknowledgment does not include language that positions it as a tax receipt.

Fund Management

Accessing Fund Information

DONORVIEW

We offer you a free, private, secure online portal, DonorView, so you can access fund information 24-7. With log-on credentials, you can check real-time balance information, available spendable funds, contribution data, statements, and more. You may also initiate a grant from your funds spendable balance to your nonprofit online. While you may wish to retain full access for yourself, you can extend read-only access to others—finance staff, board treasurer, etc.

We'll also send you a notification email when contributions are posted to your fund.

FUND STATEMENTS

We send quarterly statement to our nonprofit fund holders. These are mailed approximately 30 days after the close of the previous calendar quarter. If you opt for electronic statements, you will receive an email as soon as statements are available. Statements provide information about gifts and grants, investment income, administrative fees, etc.

INVESTING NONPROFIT FUNDS

Nonprofit funds are invested in our "main pool" which is a highly diversified portfolio pooled with more than 600 funds and houses our Community's Endowment assets.

CFHZ's Board of Trustees has ultimate responsibility for the investment portfolio and delegates responsibility to its Investment Committee for implementing and monitoring the investment policy. The Investment Committee meets bi-monthly and is comprised of local business and financial leaders in our community. An overview of the CFHZ's investment allocations and performance is available at any time upon request.

CFHZ is audited annually, and its report as well as Form 990 or 990-T is available upon request.

INVESTMENT EARNINGS AND ANNUAL REVENUE GRANTS

Investment earnings generate annual revenue grants (also known as your annual available spending balance or available spending policy grant).

We calculate these annually as of September 30 on a 4% average of the previous 12-quarter market values. In the first quarter of each year, we notify you of the amount available for that year. This formula ensures the fund can make distributions in perpetuity, smoothing the available distributions during market downturns, and allows your nonprofit fund to grow over time.

Upon receiving your available spending balance, you may:

- Instruct CFHZ to carry over your spending balance for available use in subsequent year(s).
- Request all or some of that balance and we will issue a check for that amount.

NONPROFIT FUND FEES

The administrative fee for a nonprofit fund is 1% annually with a minimum annual fee of \$250 on assets up to \$1 million, .75% on assets over \$1 million, and .5% for fund assets over \$3 million.

Multiple funds benefiting the same nonprofit may be combined to qualify for the reduced tiered-rates.

VARIANCE POWER

Should a nonprofit cease to exist, lose its nonprofit status, or its mission becomes irrelevant or impossible to achieve, the Board's variance power confers the right to redirect its funds elsewhere to benefit the community in a way consistent with donor intent.

The Board, however, works to avoid invoking variance power, does so very rarely, and, when it must, is accountable to the State of Michigan's attorney general.

SPECIAL REPORTING REQUIREMENTS

The Financial Accounting Standards Board Accounting Standards Codification Topic 958, (formerly FASB 136) outlines how financial statements must be prepared consistent with generally accepted accounting principles.

For tax purposes, your nonprofit is required to disclose when it transfers assets to CFHZ and designates itself as a fund beneficiary. You must disclose:

1. The identity of the recipient organization to which the transfer was made, i.e. The Community Foundation of the Holland/Zeeland Area.
2. That variance power was granted and the terms of the variance power.
3. The terms under which amounts will be distributed to your nonprofit.
4. 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".

See page 9 for more information.

Accounting for Nonprofit Funds

FASB ASC 958 applies to accounting for assets transferred to a fund in a community foundation by nonprofit organizations. Under FASB ASC 958, when a nonprofit organization transfers a portion of its own assets to a fund in a community foundation, the nonprofit organization continues to report those assets as its own, with the offsetting activity reported in net assets. The community foundation also reports the asset, and the offsetting entry is classified as a liability to the nonprofit organization.

When a private individual establishes or contributes to an endowment fund in a community foundation to benefit a nonprofit organization, FASB ASC 958 specifies that the assets in the endowment be reported only in the books of the foundation.

By request, some organizations have asked the Foundation to permanently restrict all of the gifts to its reserve fund. By the organization's own request it does not want to invade principle of gifts (some or all) made by the organization. Because the accounting standards still require that the organization reflect gifts made by itself to its fund in the Foundation, the Foundation again will account separately for funds which the organization itself wishes to restrict. In these instances, the Foundation will deposit an organization's restricted funds into the endowed fund balance portion of the organization's reserve fund.

Organizations with nonprofit funds will receive two separate statements each quarter.

Promoting Your Fund

EDUCATE DONORS

Plant endowment seeds regularly by promoting your nonprofit endowment fund in your newsletters, e-blasts, gift solicitation letters, and your annual report. Also use your website and social media sites and other marketing strategies unique to your organization.

Publicize what revenue from your endowment fund has permitted you to accomplish. Picture for your donors what a healthy endowment will allow you to do in the future.

Not every donor understands how endowments operate and the long-term benefits they provide your nonprofit. We're happy to help you with some messaging to educate your donors and thereby promote your fund. We're also happy to present at a gathering of your board members, donors or volunteers.

Ensure your donors understand that gifts to your endowment fund are held for long term investment outside your nonprofit's control.

We list all nonprofit funds in our annual report and feature a single nonprofit in each issue to draw attention to the endowment nonprofits are building at CFHZ and the benefits the nonprofits are reaping. Both CFHZ fundholders and non-fundholders may search our website, cfhz.org, by their interest area or your nonprofit name. When they locate and select your nonprofit, a user-defined field appears to describe your nonprofit and the work you do. We're happy to insert a short paragraph you compose that highlights your agency and current initiatives; we're also willing to change these out periodically as needed.

You and your board may also find an opportune time to promote your fund through an endowment campaign. While we are not your fundraisers, our experienced staff is available to initially consult with you, your board and its committees, and donor prospects about endowment strategies and techniques.

Please note: Your nonprofit endowment fund materials must make appropriate representations. For this reason, please provide us a copy of all solicitation materials for our review prior to printing or publishing.

Encourage Planned Gifts

By creating a nonprofit fund with CFHZ, you enable and encourage donors to leave a permanent legacy that will forever benefit your nonprofit. Donors may add to your nonprofit endowment fund by bequest, simply naming CFHZ as a beneficiary in their estate plans and specifying your fund's name as the end recipient.

Donors may name a specific dollar amount, a percentage of, or the residual of their estate. Encourage them to consult their attorneys or use the following bequest language in their wills or trusts.

SPECIFIC BEQUEST

With a specific bequest, you designate the Community Foundation of the Holland/Zeeland Area to receive a specific dollar amount or specific property.

"I give, devise and bequeath [gift description] of [\$ amount, %] to The Community Foundation of the Holland/Zeeland Area, a Michigan nonprofit corporation located in Holland, Michigan, to be added to the [fund name], a component fund of The Community Foundation of the Holland/Zeeland Area. The Community Foundation of the Holland/Zeeland Area shall administer said Fund in accordance with the provisions of the Amended Articles of Incorporation and policies of The Community Foundation of the Holland/Zeeland Area in effect from time to time."

Alternately, donors may create new named funds and designate that, in perpetuity, all grants from these funds be made to your nonprofit.

RESIDUARY BEQUEST

A residuary bequest is used to give the Community Foundation of the Holland/Zeeland Area all (or a percentage) of your property, after all debts, taxes, expenditure and all other bequests have been paid.

I give to the Community Foundation of the Holland/Zeeland Area, a Michigan nonprofit corporation, of Holland, Michigan, [all of, %] the residue of my estate, to be added to the [name of your fund], a component fund of The Community Foundation of the Holland/Zeeland Area. The Community Foundation of the Holland/Zeeland Area shall administer said Fund in accordance with the provisions of the Amended Articles of Incorporation and policies of The Community Foundation of the Holland/Zeeland Area in effect from time to time.

CONTINGENT BEQUEST

In the event of an unexpected occurrence, a contingent bequest will ensure that property will pass to the Community Foundation of the Holland/Zeeland Area rather than unintended beneficiaries.

If, at any time, there is no one to take under the other provision of this will, I give the assets to the Community Foundation of the Holland/Zeeland Area, a Michigan nonprofit corporation, of Holland, Michigan, to be added to the [name of your fund], a component fund of The Community Foundation of the Holland/Zeeland Area. The Community Foundation of the Holland/Zeeland Area shall administer said Fund in accordance with the provisions of the Amended Articles of Incorporation and policies of The Community Foundation of the Holland/Zeeland Area in effect from time to time.

| | NONPROFIT RESERVE FUND | NONPROFIT ENDOWMENT FUND |
|--|---|---|
| FUND OPENING | | |
| Source of funds | Your nonprofit | Third-party donor(s) |
| Fund agreement | Nonprofit Fund Agreement | |
| Fee to open | None | |
| Initial gift minimum | \$10,000 between the Nonprofit Reserve and Nonprofit Endowment funds. | |
| ADDITIONAL FUNDING | | |
| Additional gift minimum | None | |
| May make a credit card gift | | Yes, though the credit card fee assessed by the card provider is charged to the fund. This averages 2.5%. |
| May make a gift of appreciated assets, e.g. stock | | Yes. Direct costs (fees for appraisals, title and legal work; stock commissions; and any losses CFHZ incurs to sell the asset) are charged to the fund. |
| ADMINISTRATION | | |
| Annual fee <i>Note: Fund balances for the same nonprofit may be combined to receive the discounted rate at \$1,000,000+</i> | \$250 minimum or 1% of the average daily balance in the fund. | |
| • Balances up to \$1,000,000 | | .75% |
| • Balances greater than \$1,000,000 | | .5% |
| • Balances greater than \$3,000,000 | | |
| Pass-through stock gift service, including QCD gifts | | 1% of gift value |
| Fund listed in CFHZ's Annual Report | Nonprofit Endowment and Reserve are listed as a single fund. | |
| Invested in CFHZ investment pool | Yes | |



For a thriving community today, tomorrow, and forever.

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