

Nonprofit Endowment Fund Policies
of the
Princeton Area Community Foundation

Princeton Area Community Foundation
15 Princess Road
Lawrenceville, NJ 08648
Tel: 609-219-1800 // Fax 609-219-1850
www.pacf.org
info@pacf.org

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INTRODUCTION

Welcome to the Princeton Area Community Foundation. And thank you for the opportunity to tell you how a partnership with the Community Foundation can enhance your organization.

The Princeton Area Community Foundation works to build community by encouraging philanthropy across central New Jersey.

The Community Foundation was incorporated under the laws of the State of New Jersey in 1991, has been granted public charity tax-exempt status by the Internal Revenue Service under Section 501(c)3 of the code, and is a registered charitable organization with the State of New Jersey. The Community Foundation is a member of the Council on Foundations in Washington, DC and the Council of New Jersey Grantmakers. It was the first New Jersey Community Foundation to be certified under rigorous National Standards for Community Foundations.

The Community Foundation is governed by a volunteer board of trustees comprised of civic leaders who work or live in the greater Mercer County area. All Community Foundation activities are overseen by its board and are carried out in compliance with its charter and bylaws as amended, the laws of New Jersey, and the regulations of the Internal Revenue Service. In addition, the Community Foundation subscribes to the codes of ethics of the Association of Fund Raising Professionals, the National Committee on Planned Giving, and the Council on Foundations. The Community Foundation also adheres to its own Confidentiality Statement.

This handbook is designed to answer your questions about a fund at the Community Foundation. It summarizes policies and procedures that apply to nonprofit endowment funds held by the Princeton Area Community Foundation, in order to assist you in the establishment and administration of your fund.

Placing Your Nonprofit Fund with the Princeton Area Community Foundation

Many Community Foundation funds have been established by nonprofit organizations as endowment funds to support future programs and operations. These funds are invested and tracked by the Community Foundation, and a percentage of the fund is distributed back to the organization according to its individual fund agreement.

Here are some benefits of establishing your fund with the Community Foundation:

- **Professional and Diversified Investment Management** – When you decide to place your nonprofit endowment fund with the Community Foundation, it becomes a part of our pool of funds. Investing as part of the pool diversifies your nonprofit fund across many more asset classes than would be possible investing it individually. The Community Foundation's investment pool is managed using a diversified strategy and is invested on a "total return" basis (combining capital appreciation and earned income), with a variety of asset classes used to lower volatility. Within each asset class, the Community Foundation retains highly skilled investment managers who specialize in that particular asset class. To ensure that the Community Foundation's portfolio is managed effectively, our Investment Committee oversees the investment pool's manager selection, best strategies and benchmarks, and closely monitors the performance, asset allocation, and style adherence of each of the fund managers.
- **Community Foundation Fund Management Services** – The Community Foundation provides fund administrative services include accounting and record keeping, quarterly reports, and automatic distributions to your nonprofit. For endowment funds we can also manage various types of gifts to the fund, including gifts of securities, real estate, insurance policies, tangible personal property, and bequests.
- **Planned Giving and Endowment Fundraising Support** – We are available to meet with your staff, trustees, and donors to speak with you about planned and other types of gifts to benefit your nonprofit fund.
- **Increased Donor Confidence** – Having an endowment fund with the Community Foundation affiliates your organization with a respected, nationally certified public charity with deep roots in the community. This affiliation can be especially helpful if the nonprofit is new to major gift fundraising, planned giving, or wishes to attract new donors. Your Community Foundation fund can also provide increased exposure to potential donors and the general public, through listings in our publications, press releases, web page, and participation in Community Foundation events.
- **Automatic Calculation of Annual Spending from the Fund** - The Community Foundation distributes a portion from nonprofit endowment funds according to a pre-determined spending formula customized for each nonprofit's individual agreement. To determine the annual distribution amount, the Community Foundation calculates the average value of the fund over the past eight quarters, and makes this pre-determined percentage available to your organization. Payments of this distribution can be issued annually, semi-annually or quarterly. Alternatively, nonprofits may choose to reinvest the annual payout in the fund at any time.
- **Built-in Fund Protection** – As the fund donor, a nonprofit organization restricts the use of principal to ensure endowed funds are maintained in perpetuity. This separation can provide a

buffer of protection from overspending your endowment to meet short-term needs, which can erode donor confidence, violate donor intent, and jeopardize the long-term health of your organization.

Community Foundation Publications and Communications

The Community Foundation's publications and website are rich sources for ideas and information.

- *UPDATE*, our newsletter, connects you with the community by presenting information on the region's emerging needs. We regularly comment on funding opportunities, highlight fund holders whose philanthropic activities are making a significant difference, and provide useful information from our knowledgeable staff.
- *The Community Foundation Annual Report* contains an overview of the Foundation's activities, financial highlights, and listings of funds, contributors, and grants.
- *The Community Foundation reports and publications* – from our tax returns to community research – are available on the *Publications* page of our web site at www.pacf.org.
- *The Community Foundation Website* contains up-to-date information on Foundation activities and events. The site has valuable *Resources and Links* pages for nonprofit organizations. It is a great portal to other sites on the web that can provide useful information. Visit us often at www.pacf.org and bookmark it.

SETTING UP YOUR FUND

A Nonprofit Endowment Fund is a fund established with the Community Foundation by a nonprofit organization. The Nonprofit Endowment Fund allows an organization to take advantage of the Community Foundation's investment management, and frees the organization from related administrative work. If you are interested in establishing or learning more about a fund we are happy to speak with your board, or its investment, development, or executive committee.

How It Works:

- A nonprofit organization completes a Nonprofit Endowment Fund Agreement.
- A nonprofit organization transfers funds to the Community Foundation.
- Additions to the fund can be made at any time.
- The fund is managed in our Managed Investment Pool which is a diversified pool with a long-term horizon.
- Distributions are made from the fund to the nonprofit based on the fund agreement.
- Funds established as endowments have a restricted payout of usually no more than 5% annually.

INVESTMENT OPTIONS

The Princeton Area Community Foundation uses a total return approach to investment management. Total return describes the change in fund value over time resulting from interest, dividends, and capital appreciation as a result of both realized and unrealized gains. It pools contributions for efficiency and the economies of scale that larger investments command. The Foundation's Investment Committee guides the Community Foundation's investments in compliance with the Investment Policy approved by the board of trustees. The Community Foundation maintains an internal accounting system that tracks all contributions, investment earnings, fees, expenses, and distributions.

Each fund is allocated its pro-rata share of monthly income, appreciation, and investment management expenses realized in the Community Foundation investment pool for the number of days the Fund is invested each month.

Investment Pool

The **Managed Investment Pool** has a long-term investment strategy providing diversification across a wide range of asset classes to manage risk while seeking the best possible returns. The guiding philosophy of the Pool's management is prudent stewardship of funds entrusted to the Community Foundation for the benefit of the charitable organizations we serve. The Managed Investment Pool is intended for endowments, and as such, maintains a 30 to 40 year horizon.

Investment Managers

The Community Foundation's Investment Committee is responsible for appointing and overseeing managers for the investment portfolio. For specific information about individual managers, please contact us.

Investment managers have the authority to invest assigned assets in securities and other investments consistent with the asset allocation and investment policies of the Foundation.

The Community Foundation's Investment Committee sets the asset allocation of the Community Foundation's investments, reviews investment performance, and has the discretion to add or change investment managers at any time.

FEES AND EXPENSES

Administrative Fees

There is no fee to establish, transfer, or close a fund at the Community Foundation.

Nonprofit funds are assessed an annual fee of 0.75% on the first \$1,000,000; 0.50% on balances over \$1,000,000, with further reductions on higher balances. Fees are deducted from the fund four times each year as of February 28, May 31, August 31, and November 30.

Investment Expenses

Each fund is assessed its pro-rata share of investment expenses monthly. Investment management expenses are approximately 0.60% annually for the Managed Investment Pool. The Community Foundation reports investment performance net of investment expenses.

RECORD-KEEPING AND REPORTING

The Community Foundation issues quarterly reports on all nonprofit funds reflecting activity (contributions, distributions, net investment returns, administrative fees and expenses) as of March 31, June 30, September 30 and December 31 each year.

LEGAL ISSUES AND POLICIES

Ownership of Funds

The Princeton Area Community Foundation has full legal ownership of all its component funds.

Liability

The Community Foundation shall not be liable for any loss of any kind that may arise in connection with the establishment and maintenance of the fund and the performance of its obligations under this agreement except for cases of its gross negligence or willful misconduct. The Community Foundation is not liable for any losses directly or indirectly caused by acts of war, acts of terrorism, labor disputes, exchange or market decisions including the suspension of trading, market volatility, trade volume, or by government restriction. The nonprofit covenants not to sue the Community Foundation and shall duly indemnify and hold harmless the Community Foundation from any liability that may arise hereunder except liability arising from the gross negligence or willful misconduct of the Community Foundation.

Tax Status

The Princeton Area Community Foundation is a public charity as described in Section 501(c)(3), 509(a)(1) and 170(b)(1)(A)(vi) of the Internal Revenue Code of 1986. As such, the Community Foundation must meet a public support test and make grants in a manner consistent with its charitable purposes. Gifts to a public charity, unlike contributions to a private foundation, have the benefit of the maximum charitable deduction permitted under current laws. Contributions are therefore fully deductible as gifts to a public charity to the extent allowed by law. The Community Foundation's Tax ID number is 52-1746234.

Variance Power

The Community Foundation's governing instruments provide that the trustees of the Princeton Area Community Foundation have the power to modify any restriction or condition on the distribution of funds for any specified charitable purposes or to specified organizations if in the sole judgment of the board (without the approval of any trustee, custodian or agent), such restriction or condition becomes, in effect, unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community or area served.