

Nonprofit Agency Endowments



Anthony Brunson is a partner in the accounting firm of Sharpton, Brunson & Company, P.A.

Among the theories underlying federal, state and local government budget-cutting attempts is the idea that private philanthropy will fill the void created by cuts in government funding for worthy programs. This is just one of the factors placing even greater demands on the resources of charitable, educational and scientific organizations. These entities must meet ever increasing social needs with very limited resources. Nonprofit agency executives need sophisticated long range planning to cope with the budget pressures ahead.

Dade Community Foundation can help manage these strategic needs and can provide other significant benefits when nonprofit agencies place their endowments with the Foundation.

Lower Administrative Costs

Many nonprofit agencies engage outside investment advisors, legal counsel and financial institutions, and pay them to administer endowment funds in the agency's care. These costs can strain a nonprofit's limited financial and human resources, using money and time the agency would rather commit to serving its constituency.

Dade Community Foundation has more than 33 years of experience in endowment fund management. During this time, it has assembled a highly proficient, qualified group of in-house professionals and administrators. Due to this experienced staff and the number of funds it administers, the Foundation achieves economies of scale which reduce -- and in many cases, eliminate -- the start-up and ongoing administrative costs of fund management. These economies of scale preserve endowment capital and ensure that endowment fund assets and related income are used where most needed, in community service. According to the Philanthropic Advisory Service, the percent of Dade Community Foundation's total income that is directed to program services ranks it among the most effective such organizations in the country.

As nonprofit budgets shrink due to government cutbacks, nonprofits look for highly trained professionals to execute investment strategies at the lowest possible cost. The Foundation is uniquely qualified to provide outstanding service at a minimal fee because expert fund management professionals donate their expertise, year in and year out.

Fund Security

Recent times have been difficult for nonprofits. Negative headlines about mismanagement at a few large charities have affected everyone's donations. With this additional reason for diminishing resources, many nonprofit organizations are seeking innovative ways to realize high returns. In some cases, these innovations are very risky. Some nonprofits faced large losses as funds they relied upon proved to be untrustworthy.

Dade Community Foundation is very sensitive to such concerns and has always conformed to very stringent internal administrative controls at every level. A Board of Governors, consisting of civic leaders representing a cross section of Miami - Dade County's business and professional community, provides sensitive and expert management. With this highly capable board overseeing its affairs, and a superb professional staff in place, Dade Community Foundation provides strong administrative controls.

Investment performance is monitored by a group of Foundation directors working with the most reputable investment advisors from local financial institutions to ensure that endowment capital is invested with minimal risk. Prudent stewardship is the hallmark of the Foundation.

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Return on Endowment Assets

The Foundation provides endowment management services for many funds. Accordingly, the capital available to invest is larger. Therefore, the returns earned on these assets due to the larger base are typically higher than those earned by nonprofit agencies administering funds with smaller asset bases.

Regulatory Requirements

The Financial Accounting Standards Board issues, and sometimes changes, the accounting rules for investments held by nonprofit organizations. Their rules address the valuation of investments, means of reporting fluctuations in investment value (including display of return in endowment financial statements), and disclosure requirements. These rules are only part of the stringent, expensive record keeping required to remain in compliance with regulations. Dade Community Foundation provides these records for its agency endowment funds.

Reporting -- and the possible downside of negative publicity -- has become more strict since the Internal Revenue Service uncovered potential abuses of charitable remainder trusts that operated within the letter, but not the spirit of the law. The director of the Exempt Organizations Technical Division in the national IRS office even indicated that the IRS may review tax return data for possible signs of abuses which may, in turn, necessitate agency audits. The IRS believes that a closer review of these tax returns could provoke new tax laws and even greater restrictions. By placing endowment fund assets with the Foundation, nonprofit organizations are released from a significant part of the grueling administrative functions (especially record keeping) associated with operating an endowment fund and maintaining compliance with all regulatory requirements.

Flexibility of Fund Instrument

Some nonprofit agency executives worry that placing agency endowment funds with a community foundation represents a loss of control. This concern is fully eased when agency executives become familiar with the flexibility offered within the design of the fund instrument for endowments. As long as the endowment's purposes and objectives fall within the Foundation's Declaration of Trust and no conditions are imposed that vary from the standard community foundations' "charitable educational or scientific purposes", there is no danger of the agency losing control. An agency executive can always ensure that the intent of an organization's endowment is being carried out professionally.

Summary

Although government budget cuts caused nonprofit executives tremendous consternation, the boards, officers and professional staff of many well-managed nonprofits are using this crisis as an opportunity to rethink how they do business. The placement of nonprofit agency endowment funds in a community foundation is a secure, innovative way to cut costs, decrease risks and increase return on endowment capital. The benefits increase when agencies calculate the money and time saved by delegating administrative and regulatory compliance concerns to Dade Community Foundation.