

## QUESTIONS ABOUT INFAITH ENDOWMENT FUNDS

To help you better understand how an endowment fund at InFaith Community Foundation would work for your organization, we offer the following commonly asked questions and answers. We are here to serve you, please call us anytime at 800.365.4172.

### **What is InFaith Community Foundation?**

InFaith Community Foundation is a public charity working nationally to help people give to their favorite charities and causes. As a community foundation, we accept gifts from individuals and families and establish donor advised funds in their names. Donors make grants from their fund to support the charities and causes they have recommended. We also accept contributions from churches and faith-based nonprofits to establish endowment funds for their benefit. Grants from endowment funds are then made back to the church or to other charities they recommend. All assets are invested so they can grow to provide support far into the future.

### **Who should be the ‘advisor’ to our endowment fund?**

You may designate anyone you wish, but we ask you name a position, such as the chair of the endowment committee, treasurer or president of the organization or church council, rather than naming a person to appear in your Fund Agreement. We also ask you designated just one person.

### **How much will the fund distribute each year?**

Typically endowment funds distribute between 4-6% of their value each year. This approach permits accumulation of growth in good investment performance years, and enables distributions during periods of poor investment performance without significantly invading principle, allowing your fund to continue well into the future. However, you can make grant recommendations from your fund in any amount whenever you wish, as long as you retain at least \$25,000 in your fund. Please make these requests in writing or online at [InFaithFound.org](http://InFaithFound.org). (See page 6 of the *Growing Future Support* brochure for more information on bylaw language for distributions.)

### **What if our bylaws say we can only spend income in a given year?**

Since you decide how much to have distributed from the fund each year, you can determine if that will include principal as well as income. However, you may want to revise such language in your governing documents, as investing in today’s markets makes the concept of ‘income only’ difficult to implement.

What makes the concepts of income and principal difficult to put into practice? Especially in recent years, the growth in the stock market has been in companies that pay little in dividends (income), and instead reinvest their profits in the business. The result is investment portfolios that increase in value through unrealized capital gains, but have little ‘income’ to distribute.

For instance, InFaith's Growth Portfolio and Mission Portfolio, which both invest 80% in equities, receive very little dividend income. Nevertheless, these portfolios have historically grown in value through unrealized capital gains. This investment style has changed the way that endowment funds are designed and the language that is used in governing documents. Instead of classifying the assets of an endowment fund into principle and income, it is more common today for an endowment fund to specify a distribution percentage that is available to be used each year, without regard to principal or income. One of the ways to express this in your own documents is:

*Annually, the endowment committee shall recommend to the Church Council the distributions to be made available from the fund, taking into account the investment growth of the fund over the previous year, the new contributions added to the fund, the distributions previously made and such other factors as the committee finds relevant.*

### **What about informing donors of the distribution policy?**

Because of state and federal laws, including the Uniform Prudent Management of Institutional Funds Act (UPMIFA), it is important potential donors be advised, prior to making a gift, that distributions from the fund may include principal as well as earnings from time to time.

### **How do we add to our fund?**

InFaith requests that additional contributions come to us in an amount of at least \$1,000. If you receive smaller checks, we ask you accumulate them and send us one check when the total reaches the \$1,000 minimum. If the proposed gift is an asset other than cash, please call InFaith for assistance in transferring the asset. Some assets by their nature may require special procedures; others such as low value or high risk real estate may not be able to be accepted.

### **Tell me more about the administrative fee that will be assessed to our fund.**

Each fund at InFaith is assessed an administrative fee that is applied toward the costs of program and administrative expenses. The annual fee is currently 1% of the fund's market value for fund values up to \$1 million, and 0.5% for amounts over \$1 million. This rate is comparable to administrative fees assessed by other community foundations (fees typically range from 1% to 5%), and is subject to change based on InFaith's board recommendation.

### **What happens if our organization closes?**

You have the opportunity to state in your Fund Agreement where you would like annual distributions from your fund directed should your organization close its doors. Some organizations, such as churches, request distributions go to their national church body for its ministries. Or, you are invited to choose one of the InFaith Collaborative Funds to be your contingent charitable beneficiary. You can also give us information about another charity that you would like to recommend instead.

### **What if we want to earmark an addition to our fund for a specific purpose, such as the music program?**

You can request that InFaith create a sub-fund within your fund. Although your Fund Agreement won't change, we will separately account for additions to and grants from that sub-fund on your fund statement. The minimum initial gift into each new sub-fund must be \$25,000.

### **How are our contributions invested?**

InFaith's investment policy is designed to provide the highest return possible within acceptable levels of risk. Our standard Growth and Mission Portfolios balance equity and bond mutual funds

and pooled investments in an 85/15 split to provide diversification through exposure to the broad scope of the available markets. This portfolio mix has historically provided investors with returns that beat inflation over the long term with intermittent periods of losses. Short-term market declines do not deter InFaith's belief that its standard investment option is appropriate for perpetual endowment funds with long-term grantmaking needs.

To accommodate organizations with larger, short-term grantmaking needs, InFaith offers the Income Portfolio (100% fixed income). Fund Advisors may change their recommended portfolio mix quarterly, with adjustments occurring at quarter end.

InFaith invests gift assets in a diversified portfolio of no-load, institutional class investments and does not assess a separate investment management fee. Each investment within the portfolio has internal management fees and expenses that are assessed against earnings. These management expenses average less than 1% per year.

In practical terms, we commingle our gift assets into pools for investment purposes. For instance, all of the assets in a church's endowment fund are commingled with the assets of other organizational endowment funds that we hold, in one investment pool. Each fund is credited with a specific number of units relative to all of the other endowment funds in the pool. Each fund experiences the same investment performance - with adjustments for additional contributions and grant distributions that take place within each fund during the given time period.

#### **SPECIFIC QUESTIONS REGARDING THE FUND AGREEMENT**

See page 8 of the *Growing Future Support* brochure for a sample Fund Agreement.

#### **What are the chances InFaith might use its variance power on our endowment fund?**

The last sentence of paragraph 1 of your Fund Agreement states that the InFaith board retains variance power, meaning the board retains authority to modify your fund agreement if needed. (See Fund Agreement for specific wording.) What that means: the InFaith board has the power to re-direct the distributions from your fund if the board finds that support of the organization to receive the distribution has become unnecessary, incapable of fulfillment, or inconsistent with the charitable purposes of InFaith, such as in the case of a benefiting church or other nonprofit ceasing to exist.

Providing you continue to comply with all applicable laws and regulations, there is little need to be concerned. In fact, since our inception in 1995, InFaith has not exercised its variance power with any organizational endowment fund, but, by law, we must retain it. The underlying rationale of variance power is to ensure your fund is efficiently executed and continues to remain relevant to changing needs and opportunities. This variance power is consistent with IRS regulations as well. Many organizations view these legal requirements as a benefit because assets are legally owned by InFaith, thus protected from legal claims asserted against the organization.

#### **What if a supporter makes a gift that includes restrictions (gift for a specific purpose, method of investment or distribution)? Can we contribute these assets to our endowment fund at InFaith?**

Occasionally, organizations receive a gift from a supporter who requests a specific purpose for his/her gift, requires a certain type of investment and/or requests that distributions be made from income only, not principal. These types of restricted gifts cannot be included in your

endowment fund as all gifts are subject to InFaith policies, including InFaith's variance power. When assets are contributed to InFaith, the contributor is verifying that the gift is not restricted and therefore, is agreeing that the assets are subject to InFaith's policies, including InFaith's variance power. We encourage you to consult with your legal advisor about potential restricted gifts so you can better understand the risks and responsibilities before contributing them to your endowment fund. A helpful resource to explore this issue further is the Uniform Prudent Management of Institutional Funds Act (UPMIFA.org).

**Paragraph 7 of the Fund Agreement states that the recommendations of our advisor aren't binding on InFaith – would InFaith ever return assets back to us?**

First, InFaith would not establish your fund if we were not confident we would be able to carry out your wishes. However, InFaith is legally organized as a community foundation, and is a grant-making organization – not a bank, trust or investment company. Unlike a bank, trust or investment company, InFaith has no legal ability to set up accounts or to invest and manage money on behalf of others. However, under federal tax law, InFaith does have the legal ability to accept charitable contributions as a public charity, and to invest and administer those assets.

InFaith's primary area of activity is accepting charitable gifts from individuals and placed into individual charitable funds, called donor advised funds, and maintained by InFaith in perpetuity to benefit the donors' favorite charities. In addition to charitable planning services for individual donors, InFaith has designed a program to provide these services to churches and faith-based nonprofits, while still staying within the range of activity open to community foundations under federal tax law. This requires that we handle our relationships with organizations in the same way we handle our relationships with individuals – we accept charitable gifts into individual funds that are maintained by InFaith in perpetuity to benefit other charities.

In the case of a fund established by a church, for instance, we accept contributions from the church and from individuals to a fund maintained by InFaith in perpetuity to benefit that church or other charities the church selects. The church may of course request distributions beyond the typical amount (usually between 4-6% of the fund's value), and some churches routinely request 10% or more. We do ask, however, that you retain at least \$25,000 in your fund.

Since our inception in 1995, more than 350 churches and nonprofit organizations have established endowment funds at InFaith. In a few cases, organizations have requested and received a distribution for the full balance of its endowment fund to meet its needs. As you read related language in the Fund Agreement, be assured InFaith is guided by its mission to serve donors – both individuals and organizations – and is directed by a board dedicated to serving our communities. All are committed to the growth and stability of churches and faith-based nonprofits, and sensitive to your concerns.

**How can I get more information about InFaith and how my fund works?**

We believe in open dialogue and that all donors should be fully informed before making important financial decisions. If you still have questions, please call us – we are here to answer your questions and help you make the most of your endowment fund at InFaith.