Finance Committee Questions/Recommendations to WACOSA Board on May 16, 2022

- Establish a Quasi-Endowment Fund*
- Select an investment option for CMCF quasi-endowment funds (the “Moderately Conservative Pool” was selected for the WACOSA Endowment Fund) – SEE CMCF Investment Options
- If the WACOSA board approves the establishment of a Quasi-Endowment Fund, would they also need to approve a transfer of funds from reserves to meet the $20K minimum amount required by CMCF or can the Finance Committee approve that transfer?
  NOTE: WACOSA should be receiving an unrestricted $5K estate gift in Q2 or Q3, so $15K would need to be transferred.
- Set the Endowment Distribution Rate (typically 4-5%). This is reviewed annually.
- Determine timing of annual distribution (Recommend that distributions be requested in Q1 following receipt of the year-end CMCF Investment Performance Reports on endowment funds).
- Should the first endowment fund distribution be made in Q1 of 2023 or Q1 of 2024?
- Establish a policy that requires an annual distribution. Rationale: To honor the promise to donors that an annual distribution will be made to WACOSA.
- Check with auditor to see if there are any rules about managing permanently restricted endowment fund accounts that are “underwater”, typically caused by a large market correction.
  NOTE: Our policy of not making a distribution on a “Named Endowment Funds” (NEF) until fully funded and fully invested for one full calendar year, will help protect against this to some degree.
- Determine the method used for calculating the annual endowment distribution**.

***Quasi-Endowment Fund Background**:
In the recent, board-approved changes to the Gift Acceptance Policies, it states:
“Legacy or estate gifts that are unrestricted by the donor will be added to the WACOSA Quasi-Endowment Fund (are also known as “Board Designated Endowment” or “Funds Functioning as Endowment; CMCF refers to this as a “Flexible Fund”). The Fund will be operated like an endowment but not be permanently restricted, meaning both the corpus and the distributions are available for general operations or any special project.”

Rationale: A Quasi-Endowment Fund will give WACOSA the flexibility on how to use unrestricted estate gifts.

****Calculating Annual Endowment Distributions:**
Should WACOSA use a “**conservative**” method when calculating the endowment distribution percentage (i.e., use beginning year balance plus any investment earnings in the current year) or a “**liberal**” method (i.e., use beginning year balance plus any investment earnings AND new contributions in the current year)?

<u>Example Using the Following Hypothetical Assumptions</u>:
Year: 2023
Beginning Balance: $100,000
Investment Return: 6%
New Contributions: $10,000
Distribution Rate: 5%

<u>Conservative Method</u>: $100,000 (beginning balance) + $6,000 (6% return) = $106,000 X 5% (distribution rate) = $5,300
2024 beginning balance would be $110,700 ($106,000 - $5,300 + $10,000)

<u>Liberal Method</u>: $100,000 (beginning balance) + $6,000 (6% return) + $10,000 (new contributions) = $116,000 X 5% (distribution rate) = $5,800.
2024 beginning balance would be $110,200 ($116,000 - $5,800)