

Using Private Bank Accounts for Large Donations

Initial question from trustee: We were visiting with an attorney about setting up a local library bank account for an Endowment fund. Is there anything that would deter us from doing that being a County entity? If possible we would prefer not to have larger donations going through the County accounts, but we want to make sure that we are doing things according to state law.

Response from Tracy Cook – April 19, 2011

I would advise you to use the county system or either wait until you have a foundation or work through a local community foundation. And to be honest I would really advise you to go with a library foundation. Here's why:

1. The county system should have a built in auditing system in place. This is really important for the protection of donors and yourselves. Donors should have assurance that an outside accountant is going to check and make sure that their monies aren't being misused.
2. You are a tax exempt entity, but most likely your tax id is the county's id. This means people can donate to the library and count their donation as a charitable donation for tax purposes however this is all falling under the county's id, so I think it's best that the county have responsibility for the fund. Large donors tend to prefer to donate to 501c3 organizations such as a library or community foundation, because the paperwork for them is much cleaner and easier to show to the IRS.
3. If the board decides to establish a fund like this the workload is pretty heavy. Your board would need to pass a resolution that establishes the fund and purpose. It would need to create policies for how the funds are going to be invested and spent, what gifts will be accepted, as well as develop literature, etc. to encourage people to donate to the endowment fund. The fund would have to be managed and invested and most counties already have this mechanism in place whereas the board would have to figure out how to handle the monies and would have to work closely with the bank. The board would need to make sure that it is in compliance with the laws listed under MCA Title 72 Chapter 30. Here's a link to the table of contents: http://data.opi.mt.gov/bills/mca_toc/72_30.htm.
4. A library foundation board would be a better way to go. If they are set up correctly they will be a 501c3, they have a separate board that can focus on all of the responsibilities that come with managing an endowment fund, they have a main purpose of raising money for the library, and the laws tend to be written for non-profits to do this kind of thing rather than governmental entities.