Agency Endowments Frequently Asked Questions (FAQ)

What is an Agency Endowment Fund?

The term "Agency Endowment" was adopted by community foundations as a description for a fund established at a community by a gift from, and for the benefit of, a non-profit organization. This term was adopted because many of the charities that establish these funds are commonly referred to as United Way "agencies". (Some Community Foundations refer to them as organizational endowments, emphasizing the "organization" in non-profit organization.) In any case, a traditional agency endowment fund is one that was established by a gift from a public charity and is bound by a fund agreement allowing for the public charity to receive payments in the future from the fund. The relationship between the community foundation and the charity is not a legal one of "principal" and "agent". As used in this FAQ, agency endowment generally refers to funds at community foundations that were established by a charity that designates itself as a beneficiary.

Accounting by the Community Foundation

How is an agency endowment fund recorded by a community foundation?

Statement of Financial Accounting Standard No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others* (FAS 136) provides guidance as to the appropriate accounting treatment for agency endowment funds. Specifically, paragraph 17.d offers the following:

"A transfer of assets to a recipient organization is not a contribution and shall be accounted for as an asset by the resource provider and as a liability by the recipient organization if…..

d. The resource provider specifies itself or its affiliate as the beneficiary and the transfer is not an equity transaction."

In other words, under FAS 136, when an agency endowment is established, the community foundation (CF) is considered the recipient organization and the not-for profit organization (NPO) is the resource provider. Following the Example 9 in paragraphs 53-56 of FAS 136, additions to the fund would not be considered a contribution to the CF. They are to be accounted for as an asset by NPO and as a liability by the CF since the NPO specified itself or its affiliate as the beneficiary. The CF would record the following journal entry:

Debit: Cash or Investment
Credit: Liability (such as Assets Held for Others)

When a community foundation (CF) accepts assets from an estate or trust to establish an endowment fund for a specific third party NPO and the will or trust grants variance power to the CF, how does the CF record the endowment?

Paragraph 12 of FAS 136 states that:

"A recipient organization that is directed by a donor to distribute the transferred assets, the return on investment of those assets, or both to a specified unaffiliated beneficiary acts as a donee, rather than an agent, trustee or intermediary, if the donor explicitly grants the recipient organization variance power-that is, the unilateral power to redirect the use of the transferred assets to another beneficiary. In that situation, *explicitly grants* means that the recipient organization's unilateral power to redirect the use of the assets is explicitly referred to in the instrument transferring the assets, and *unilateral power* means that the recipient organization can override the donor's instructions without approval from the donor, specified beneficiary, or any other interested party."

Following the illustrative guidance of Appendix A and Example 2 of FAS 136 the CF should recognize the gift received as assets and as contribution revenue with the following journal entry:

Debit: Cash or Investment
Credit: Contribution Revenue

When a community foundation (CF) accepts assets from an estate or trust to establish an endowment fund for a specific third party NPO and the will or trust is silent relative to variance power to the CF, how may the CF record the endowment?

Many gift instruments incorporate by reference the variance power. That is, the gift instrument has language such as, "I give and bequeath … in accordance with provisions specified in the Resolution and Declaration of Trust … all of which provisions are hereby incorporated by reference and conclusively assented to and adopted." If this type of language is in the gift instrument, it has the same impact as including every word of the referenced document. Because a description of the variance power would most certainly be included in such a document, the donor has "explicitly" granted the variance power. Other gift instruments may include language such as, "I do not intend to limit in any way the powers which the Corporation derives from its Certification of Incorporation, By-Laws or otherwise." Legally, such funds are certainly subject to the variance power. However, FASB has established more stringent standards for recognizing variance power for accounting purposes. The ultimate test for FASB is whether the donor understood the implications of the variance power. Since one of the advantages of a community foundation is the variance power, it is often described in materials sent to prospective donors or other correspondence with the donor. If needed, these materials can be used as additional documentation to show that it was indeed the donor's intent to grant the variance power. Going forward, it is recommended that gift instruments for designated or field of interest funds include a sentence granting the variance power.

If variance power is not easily determined?

As noted in question #3, in most instances, because the Articles of Incorporation establishing a Community Foundation reference variance power, legally, an agency endowment fund is certainly subject to the variance power. But because FASB has established more stringent standards for recognizing variance power for accounting purposes, a foundation will need to use reasonable judgment after reviewing all documentation and develop a case either proving or disproving that the donor understood the implications of the variance power. Again, going forward, it is recommended that gift instruments for designated or field of interest funds include a sentence granting the variance power.

Accounting by the beneficiary NPO

How is an agency fund type endowment recorded by an NPO when the donor is the NPO and the fund benefits itself or its affiliate?

Example #9 in FAS 136 Paragraph 56 demonstrates that upon the transfer of assets to a community foundation (CF), the nonprofit organization would recognize an asset on its books as a beneficial interest in assets held by the CF. Therefore, the following entry would be made upon the transfer:

Debit: Beneficial Interest in Assets Held by Community Foundation
Credit: Cash

As the CF makes distributions back to the nonprofit organization, the following entry is made on the nonprofit's books:

Debit: Cash
Credit: Investment Income

Changes in value of the endowment fund at the CF would be adjusted on the nonprofit's books as follows:

Debit: Beneficial Interest in Assets Held by Community Foundation
Credit: Gain

or

Debit: Loss
Credit: Beneficial Interest in Assets Held by Community Foundation