ACCOUNTING FOR AGENCY ENDOWMENT FUNDS HELD AT COMMUNITY FOUNDATIONS

Introduction

Nonprofits place their endowment funds with community foundations for a variety of reasons, including investment expertise, efficiencies, and access to planned giving advice and services. As nonprofit organizations seek to place their assets and partner with the Foundation, questions arise as to the appropriate accounting for this relationship.

The purpose of this article is to provide nonprofits with a possible solution for accounting for their interest in the endowment funds placed with community foundations. As is always the case, each nonprofit organization should consult with its own auditors in determining the best solution for its needs. It should be noted that this paper speaks only to the accounting for endowment funds created at a community foundation by a nonprofit organization with its own endowment dollars. Donor designated funds held by a community foundation, which come directly to the community foundation from a donor and not through the nonprofit, are not covered.

Existing Guidance

In June 1999, The Financial Accounting Standards Board (FASB) issued 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). FAS 136 provides guidance for accounting in the case where a "resource provider" (nonprofit organization) transfers assets to a community foundation, but specifies itself or its affiliate as the beneficiary of the assets. The transaction is deemed to be reciprocal because at the time of the transfer, the nonprofit organization expects to receive future distributions because it specifies itself as a beneficiary, and by acceptance of the transfer, the community foundation agrees to make distributions to the nonprofit organization. Because the transaction is deemed to be reciprocal, the nonprofit organization should recognize an asset and the community foundation should recognize a liability. The nonprofit is transferring its asset to the community foundation in exchange for future distributions. The community foundation, by its acceptance of the transfer, agrees that at the time of the transfer distributions to the nonprofit are capable of fulfillment and consistent with the foundation's mission.

Accounting Entries

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

Creation of the Fund

Dr. Beneficial Interest in Assets Held by Community Foundation
Cr. Cash

(Assets and net assets are measured at present value based on the expected future cash flows to the nonprofit [generally measured by the fair value of assets transferred to the community foundation, unless facts and circumstances indicate that the fair value of the assets transferred to the community foundation differs from the present value of the expected future cash flows.])

Source of Nonprofit Funds:

If the net assets transferred are from the nonprofit's operating surplus (Unrestricted Net Assets), then the net assets will need to be transferred to Permanently Restricted Net Assets on the nonprofit's books. The nonprofit would show a reclassification of net assets from Unrestricted to Permanently Restricted on the Statement of Activities.

If the net assets transferred are derived from donor-restricted endowment funds contributed to the nonprofit, the nonprofit should first ensure that the transfer of the net assets will not violate the contract between the nonprofit and the donor. If the transfer will not violate such contract, then no reclassification of net assets will be necessary as the net assets should already be classified as permanently restricted on the nonprofits book.

Less guidance is given on the proper treatment of changes in value of and distributions from the assets held at the community foundation to the nonprofit throughout the life of the fund agreement.

The nonprofit's interest in the endowment fund at the community foundation is similar in nature to an interest in a perpetual trust in that the nonprofit organization has an interest in a future income stream from the trust. As with a perpetual trust, the nonprofit organization generally does not have access to the principal value of the assets held in the community foundation endowment fund under the terms of the fund agreement.

Based on the premise that a nonprofit endowment fund is like a perpetual trust, the following accounting entries would be made throughout the life of the fund to account for the changes in value and distributions from the assets held at the community foundation:

Income Payments During the Period

As the community foundation makes distributions of income back the nonprofit organization, the following entries are made on the nonprofit's books.

Dr. Cash
Cr. Investment Income (Unrestricted)

(Distribution received from assets held at community foundation)

Periodic Valuation

Changes in value of the endowment fund at the community foundation would be captured on the nonprofit's books as follows:

Dr. Beneficial Interest in assets held at Community Foundation
Cr. Gain or Loss (Permanently Restricted)

(To adjust for changes in present value of expected cash flows – debit and credit could be reversed.)

Presentation and Disclosure

As shown above in the Accounting Entries, the nonprofit would show an asset on its balance sheet equal to the interest in the fund held at the community foundation. Because the fund agreement limits the nonprofit's access to the endowment assets at the community foundation, the net assets related to the interest in the fund would be classified as permanently restricted.

In addition, the nonprofit should disclose the following in its financial statements

1. The identity of the community foundation,

2. Whether variance power was granted to the community foundation and, if so, a description of the terms of the variance power,

3. The terms under which the community foundation will distribute amounts to the nonprofit, and

4. The aggregate amount reported in the statement of financial position and how that amount is described.

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), Appendix A, page 21, Example #9, paragraph #56.

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), page 7, paragraph #19.