Mt. Pleasant Area community foundation℠

Designated and Agency Funds -- What's the difference?

There are two types of funds that directly benefit nonprofit organizations: Designated and Agency Funds. These are sometimes both referred to as "Organization Funds."

The distinguishing feature is the source of the money for the fund.

- **Agency Funds:** An Agency Fund is established by a nonprofit that transfers certain assets to the Community Foundation and designates itself as the beneficiary of the fund. This type of fund is governed by Financial Accounting Standard Board directive 136 (FASB 136).* Please note that an agency fund agreement includes standard language which distinguishes a community foundation from a financial institution.

  When a nonprofit establishes an Agency Fund, the Community Foundation automatically establishes a 'sister' account that allows the Community Foundation to receive gifts directly from individual donors that are given for the benefit of the nonprofit.

- **Designated Funds:** Designated Funds are established by individual donors (third parties), not the agency itself, to benefit one or more nonprofit organizations; therefore the nonprofit organizations do not get a financial statement for these funds. Such a fund is not governed by FASB 136.*

How does the Community Foundation account for these funds?

- The nonprofit organization will receive an annual fund statement that details the activity for its **Agency Fund.**
- As a courtesy, the Community Foundation will also include the 'sister' account statement reflecting the activity and gifts by individual donors (third parties) in support of the nonprofit organization.

How does the nonprofit organization show these funds in its financial statements?

- The nonprofit organization should recognize the FASB 136 for its **Agency Fund** on its statement of financial position. *Please consult your accountant and/or refer to the Financial Accounting Standards Board directive No.136.*
- The nonprofit organization **should not** record the assets of Designated Funds or 'sister' accounts.

*** FASB 136**

Financial Accounting Standard 136 applies to accounting for assets transferred to a fund in a community foundation by nonprofit organizations. Under FASB 136, when a nonprofit transfers a portion of its own assets to a fund in a community foundation, the nonprofit continues to report those assets as its own, with the offsetting activity reported in net assets. The community foundation also reports the asset, and the offsetting entry is classified as a liability to the nonprofit organization.

When a private individual establishes an endowment fund in a community foundation to benefit a nonprofit organization, FASB 136 specifies that the assets in the endowment be reported *only* in the books of the foundation.

An organization endowment fund in a community foundation contains a mixture of assets transferred from the nonprofit organization and gifted by private individuals. Each type of transaction must be tracked separately as specified above.

This disclosure statement is intended to provide basic information regarding the establishment of agency and designated funds. The Community Foundation is not in the business of rendering legal, accounting or financial advice. Always discuss your plans with your attorney, accountant or financial advisor.