

## Frequently Asked Questions: Agency Funds

TFEC and our regional foundations hold a number of endowments for charitable organizations. These endowments offer non-profit agencies the benefits of marketing, development and legal services, professional investment oversight, an excellent investment performance record, and a spending policy that assures a stable annual flow of grant dollars to the organization. The several questions below are frequently asked about the operations of Agency Endowments at TFEC.

### **FAQ1. What is an Agency Endowment fund?**

**Answer:** An Agency Fund is a fund established by a nonprofit organization to assure its long-term fiscal health. Generally, these funds are established using assets under the control of the governing body of the organization. Individuals, corporations, or other donors may also contribute to such funds.

### **FAQ2. When an organization places an endowment with TFEC, what entity is the legal owner of the funds?**

**Answer:** TFEC is the legal owner of the funds. All funds entrusted to TFEC are subject to the Bylaws of TFEC. According to the Bylaws, the Board of Directors, as the governing body of TFEC, controls all funds.

### **FAQ3. Who controls the use of the income from the fund?**

**Answer:** Unless a specific use is identified in the documents that establish the fund, the governing body of the agency may use the income for any purpose. Sometimes, funds are established with specific purposes stated such as building maintenance or continuing education for employees. In such instances, the income must be used in accordance with the specific designation and the organization will be required to certify the use of the funds to TFEC.

### **FAQ4. TFEC's materials indicate that Agency Fund should be considered permanent endowments. Is this correct?**

**Answer:** Yes. A fund established by an organization which is also the recipient of distributions of that fund must be a permanent endowment. Otherwise, the fund could be considered as a vehicle for short-term investments, and TFEC is not permitted to act as solely an investment advisor or portfolio manager for the donor organization.

### **FAQ5: Does this mean that our organization can never access the principal, no matter what emergency might occur?**

**Answer:** No. The Bylaws of TFEC state that if circumstances have so changed as to render it unnecessary, undesirable, impractical or impossible to comply with the terms of the fund agreement, then the Board of Directors may authorize grants from principal. Such an authorization requires a request in writing from the agency, and an affirmative vote of two-thirds of the members of the Board of Directors.

### **FAQ6: So you are saying that the charitable organization could get the principal back on demand.**

**Answer:** No. An organization would need to request such a grant from principal in writing. Each request for a full or partial grant of principal would be evaluated on its merits, based on facts and

circumstances. The Board of Directors must determine that the request meets the criteria of the Bylaws to drop the safeguards, and that the proposed grant meets the general TFEC grantmaking criteria. With regard to the latter, for example, a grant could not be used to pay a settlement for a sexual harassment suit.

**FAQ7: What would be the procedure for making such a request and what should the request contain?**

**Answer:** As to procedure, the request must be made in writing and accompanied by a motion or resolution of the agency's governing body supporting the request. As to content, the request must contain a description of how and for what the grant will be used within the TFEC general grantmaking guidelines. Second, the request needs to provide sufficient information and detail to show that the need for the principal grant is extraordinary and not expected to occur on an ongoing basis. Third, the request needs to be accompanied by a history of fiscal responsibility which indicates that grants from principal will not be needed on an ongoing basis.

**FAQ8: Aren't those are tough requirements?**

**Answer:** Yes, and purposely so. Organizations work very hard to develop endowment funds, and they place them with TFEC in order to safeguard them from the temptation of easy access when budget crunches occur. One only need be aware of the millions of dollars of Philadelphia hospital endowments that were squandered by the leadership of the Allegheny Health Plan to realize the value of such a firewall.

**FAQ9. How are funds entrusted to TFEC accounted for by TFEC and by the charitable organization?**

**Answer:** The Financial Accounting Standards Board has issued Standard 136, which sets out the accounting rules for a fund established with a community foundation by an organization that is also the recipient of distributions from that fund. In a nutshell, assets that are placed with TFEC by the agency itself can be recorded as an asset on the agency's balance sheet (and a liability on TFEC's balance sheet). Assets that are contributed to TFEC by donors other than the agency must be recorded as assets of TFEC. Therefore, we encourage agencies to collect contributions directly from their donors, deposit them and send an agency check to TFEC for the total amount. In this way, these contributions can be reflected on the agency's financial statements and fully depict the fiscal capacity of the organization.