Finance, Administration & Operations Group
For Community Foundations

Accounting for Assets Held at Community Foundations

A Guide for Non-Profit Entities and Community Foundations

Originally published as “Accounting for Endowment Funds Held at Community Foundations” and developed by the Finance, Administration & Operations Group (FAOG) Accounting Practices Committee (last updated August 19, 2010). In 2025, the document was updated and separated into two companion guides to better reflect the distinct accounting considerations for nonprofit organizations and community foundations. This update was prepared by the FAOG Accounting Practices Committee in collaboration with Baker Tilly US, LLP.

Introduction

Non-profit entities place their investments with community foundations (the Foundation) for a variety of reasons, including investment expertise, efficiencies, and access to planned giving advice and services. As non-profit entities seek to place their assets and partner with the Foundation, questions arise as to the appropriate accounting for this relationship.

The purpose of this document is to provide non-profits with guidance for accounting and tax reporting for their interest in the investment pool held with the Foundation. As is always the case, each non-profit entity should consult with its own legal, accounting (audit and tax advisors) in determining the best solution for its needs. If legal, accounting, investment, or other professional advice is required, the services of a professional should be sought.

Donor Advised Funds held by a community foundation are not covered.

This memo will focus on the accounting treatment from the perspective of the community foundation relating to assets placed within the Foundation’s investment pool as an agency transaction.

Section 1 – Assets Transferred to Community Foundation

Agency Funds

According to US GAAP, an agency transaction is a transaction in which the reporting organization acts as an agent, trustee, or intermediary for another party. When a non-profit acts in such a capacity, the non-profit does not recognize a donation in its own books. It must instead record the asset, such as cash, and a corresponding liability, such as a payable or due to.

An Agency Fund is established by a not-for-profit that transfers certain assets to the Community Foundation and designates itself as the beneficiary of the fund. This type of fund is governed by Accounting Standards Codification 958-605-25 (Not-for-Profit Entities, Revenue Recognition).

A not-for-profit organization may pool part or all of its investments (including investments arising from contributions with different kinds of restrictions) for portfolio management purposes.

When a pool is established, ownership interests are initially assigned (typically through unitization) to the various pool categories (sometimes referred to as participants) based on the market value of the cash and securities placed in the pool by each participant. Current market value is used to determine the number of units allocated to additional assets placed in the pool and to value withdrawals from the pool. Investment income and realized gains and losses (and any recognized unrealized gains and losses) are allocated equitably based on the number of units assigned to each participant.

As a community foundation, the non-profit will look to the community foundation for monthly, quarterly, or annual statements relating to their investment in the community foundation's investment pool, earnings, investment strategy, and the like. Potentially the non-profit may require additional information for financial statement disclosures and internal reporting.

Accounting Entries for the Community Foundation

Step #1 Initial Journal Entries Receipt of Asset from Nonprofit:

The community foundation will record a liability on receipt of the cash from the non-profit entity as follows:

Debit: Cash
Credit: Agency Endowment (A liability account)

All future adjustments resulting from income, expense, or distributions to the non-profit entity will be recorded in this liability account with no impact on the statement of activities of the community foundation.

Step #2 Periodic Valuation:

The community foundation should apply their valuation policy to all investment pools where external nonprofit organizations are invested in.

Presentation and Disclosures

The Community Foundation will include the related assets in its fair value disclosure and will separately identify agency funds as a liability in its financial statements. Information as to the arrangements under which agency funds are held will need to be disclosed, if material, similar to the disclosure provided by the non-profit entity.

As the Agency Endowment Funds are part of the community foundation's investment portfolio, the presentation and disclosure of those investments would be in accordance with ASC 820 which outlines the framework for measuring fair value and required detailed disclosures about the valuation method, input used, and the level within the fair value hierarchy for each asset being measured at fair value.

Differences between GAAP and Tax Reporting by the Community Foundation

There are generally two approaches to tax reporting by community foundations with respect to agency transactions and endowments. Some community foundations follow legal guidance, which indicates that GAAP reporting does not affect the legal treatment of contributions to and grants from agency funds, but many also report on their Form 990 consistent with the GAAP reporting on the statement of activities and/or statement of financial position. There is nothing stated in the tax guidance or Form 990 instructions that indicate a community foundation or nonprofit entity with an agency transaction or endowment should deviate from the GAAP reporting and generally, if the IRS intends there to be a book to tax difference for reporting an item, they will state that within their published guidance. It would also be unusual to report the statement of financial position differently from book reporting unless an organization reports on a different accounting method for tax than for their books and records or book reporting is consolidated while the Form 990 is not. It is recommended you consult with your tax and legal advisors on preferred reporting approaches.

Tax Reporting Consistent with GAAP Reporting:

For an agency fund transaction where a non-profit is investing money with a community foundation similar to a pooled investment fund structure, consistent with GAAP reporting, the community foundation would report an asset and liability on the statement of financial position. There is inconsistency in how the liability may be reported but common classifications are as an escrow or custodial liability or other liability.

Tax Reporting Consistent with Legal Treatment:

For agency endowment reporting, where the donation is made to the community foundation and the community foundation retains control, variance power, and ultimate authority over the distribution of the funds, the community foundation will report contributions as income, grants paid out as expense, and the funds are under the control of the community foundation. This is consistent with the legal treatment where contributions from the non-profit entity are reported in Part VIII as the non-profit sets up an agency endowment, while the non-profit entity reports expense as a grant to the community foundation on their Form 990.