Finance, Administration & Operations Group
For Community Foundations

Accounting for Assets Held at Nonprofits

A Guide for Nonprofit 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

Nonprofit 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 nonprofit 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 nonprofits with guidance for accounting and tax reporting for their interest in the investment pool held with community foundations. As is always the case, each nonprofit 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 nonprofit entity.

This memo is broken into two sections, the first discusses if non-endowment assets are placed in the community foundation's investment pool. The second section discusses endowment funds created at a community foundation by a nonprofit entity with its own endowment dollars.

Section 1 – Non-Endowment investments transferred to Community Foundation

Accounting Entries for the Nonprofit Entity

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. The number and the nature of the pools may vary from organization to organization.

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.

Example #10 in FASB ASC 958-605-55 paragraphs 106-110 demonstrates that upon the transfer of assets to a community foundation, the nonprofit entity would recognize an asset on its books as a beneficial interest in assets held by the community foundation. The following steps should be considered:

Step #1 Initial Valuation

The nonprofit entity would account for the Beneficial Interest in Assets Held by Community Foundation (Beneficial Interest) at fair value based on the fair value of the assets transferred. Under ASC 820, Fair value of the assets should be evaluated by the nonprofit to determine if the value should be adjusted.

To calculate the fair value of a beneficial interest in an investment pool held at a community foundation, typically use the proportionate share of the total investment pool value based on your fund's percentage ownership within that pool, as reflected in the community foundation's financial statements; essentially, multiplying the total pool value by the percentage representing your fund's share.

Factors to adjust the fair value may include, but are not limited to, prices of recent transactions in the same or similar funds, current performance, future expectations of the particular investment, and changes in market outlook and the financing environment. Valuations are reviewed at least annually using a variety of qualitative factors to subjectively determine the most appropriate valuation methodologies.

Step #2 Initial Journal Entries Creation of the Beneficial Interest

Upon transfer of assets to the Community Foundation, the nonprofit would decrease cash or investments and debit the beneficial interest in assets held by community foundation.

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

Consideration of Donor Restricted Funds

If the transfer will not violate such donor agreements and the net assets are already classified as without donor restricted net assets the beneficial interest in assets held by community foundation can be classified as without donor restricted. If the assets are donor restricted, the transfer should be held as with donor restricted.

Definitions:

Without Donor Restriction: Net assets without donor restrictions are financial resources that can be used by a nonprofit organization for any purpose, without restrictions from the donor. These assets are also known as unrestricted net assets, general operating funds, or general support funds.

With Donor Restriction: Net assets may include contributions received or promised to the organization that carry a donor-imposed restriction as to when (time restriction) or for what purpose (purpose restriction) the gift can be used, or a restriction requiring that the funds be set aside permanently, often allowing the income earned on the amount to be used for operating purposes or for a specific purpose as noted above.

Step #3 Periodic Valuation

Similar to investments held by the nonprofit, Beneficial Interest should be revalued routinely (month, quarterly), no less than annually. The valuation methodology followed should be in accordance with ASC 820, see discussion in “Step #1”.

If the changes in value of the beneficial interest at the community foundation increased, to captured the increase, the nonprofit's would record:

Debit: Beneficial Interest
Credit: Gain

(To adjust for fair value - debit and credit could be reversed. For a loss the nonprofit would debit investment income and credit beneficial interest)

Step #4 Periodic Withdrawals:

As the community foundation makes withdrawals to the nonprofit organization, the following entries are made on the nonprofit's books.

Debit: Cash
Credit: Beneficial Interest

Beneficial Interest Classification in the Fair Value Hierarchy Table

As the beneficial interest is held at fair value, it should be included in the in the fair value measurement table in accordance with FASB ASC 820.

To calculate the fair value of a beneficial interest in an investment pool held at a community foundation there are significant unobservable inputs due to:

- the unit of account is the interest in the investee fund itself, not the underlying investments within the investee pool
- Potential redemption restrictions
- Control of investment strategy

Typically use the proportionate share of the total investment pool value based on your fund's percentage ownership within that pool, as reflected in the community foundation's financial statements; essentially, multiplying the total pool value by the percentage representing your fund's share.

As there are significant unobservable inputs in the fair value determination, the beneficial interest would be classified as a Level 3 investment. This categorization brings with it other requirements detailed in FASB ASC 820-10-50.

Furthermore, community foundations are not investment companies within the scope of FASB ASC 946, Financial Services- Investment Companies, because community foundations have business purposes in addition to investing (that is, community foundations are also grant-making entities). As a result, the beneficial interest should not be classified as assets held at net asset value.

The following example provides the required disclosure likely to pertain for most nonprofit entities. Fair value disclosure of other assets or liabilities carried at fair value would also need to be disclosed. An example disclosure is as follows: The following is a summary of assets held at fair value:

At June 30, 20XX:

		Fair Value Measurements Using		
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Beneficial Interest in Assets Held at the XX Community Foundation	$500,452	$	$	$500,452

The beneficial interest in assets held at the XX Community Foundation has been valued, as a practical expedient, at the fair value of the Organization's share of the Foundation's investment pool as of the measurement date. The Foundation values securities and other financial instruments on a fair value basis of accounting. The estimated fair values of certain investments of the Foundation, which include private placements and other securities for which prices are not readily available, are determined by the management of the Foundation and may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. The Foundation's investments are composed approximately of 35 percent domestic equities, 30 percent foreign stocks, 25 percent bonds and 10 percent alternative investments including hedge funds, real estate and private equity funds. The beneficial interest in assets held at the XX Community Foundation is not redeemable by the Organization as described in note X.

Financial instruments classified as Level 3 in the fair value hierarchy represent the Organization's investments in financial instruments in which management has used at least one significant unobservable input in the valuation model. The following table represents a reconciliation of the activities for Level 3 financial instruments:

Balance on July 1, 20XX	$555,000
Additional amounts invested in Fund	10,000
Share of depreciation of fund	(39,548)
Distributions received	(25,000)
Balance on July 1, 20XY	500,452
Additional amounts invested in fund	50,000
Share of appreciation of fund	10,000
Distributions received	(25,000)
Balance on June 30, 20XY	$535,452

Section 2 –Endowment Assets transferred to Community Foundation

Background

Donor Endowment Fund:

An endowment fund is a permanent investment fund that provides long-term financial support for a cause or organization. The fund's assets are invested, and a portion of the earnings are paid out each year to support the fund's purpose through a spending policy adopted by the nonprofit. The remaining earnings are reinvested to grow the fund's value over time.

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) is a model rule setting out principles for the manner in which institutions should administer their endowments. Laws requiring application of UPMIFA principles have been enacted in most, but not all, states. The state laws provide guidance on the management and investment of charitable funds such as endowments. In addition, they guide board decision-making on how much of the total return should be distributed (that is, “appropriated for spending”) and how much should be reinvested to ensure that the fund will last in perpetuity.

The requirement to classify investment return as net assets with donor restrictions until it is appropriated for spending results in an implied time restriction on that portion of the endowment. According to ASC 958-205-45-13E, the implied time restriction lapses only when and to the degree that a governing board appropriates an amount for expenditure from the fund after weighing the factors detailed in Uniform Prudent Management of

Institutional Funds Act's (UPMIFA) "prudent spending" guidelines. If a donor-restricted endowment also carries a purpose restriction (that is, the return must be used for purposes stipulated by the donor), the implied time restriction must be met (through appropriation for spending) before the purpose restriction can be considered to be met in order to comply with the requirements of ASC 958-205-45-9 (discussed in NP 6.7.2) for reporting releases of restrictions when two or more restrictions have been imposed on a single gift.

Board Endowment Fund:
A board endowment fund is a fund created by a nonprofit organization's board of directors to generate income for a long period of time. The fund is made up of a portion of the organization's unrestricted net assets. The board designates a portion of the organization's without donor net assets to be invested.

Initial Recording, Valuation, Annual Accounting

The initial recording, valuation, and accounting for endowment funds held at the community foundation would follow the steps in Section 1. The difference is classification between with and without donor restriction.

Board Endowment Fund:
No deviation noted in Section 1 steps 1 through 4, as the assets would be recorded as without donor restricted. A spending policy may be in effect for board endowment funds however, there is no impact to the classification of net assets relating to the unappropriated earnings.

Donor Endowment Fund:
Specific for donor endowment accounting purposes, deviation from Steps 1 through 4 are as follows:

- Classification of Corpus amount should be recorded as with donor restricted
- Classification of investment income should be recorded as with donor restricted until appropriated through the nonprofit's spending policy in accordance with UPMIFA
- Nonprofit may receive a distribution from the community foundation for endowment funds however, the distribution may not align with the nonprofit's spending policy as such, the nonprofit should ensure such distributions are properly accounted for in accordance with UPMIFA

Step #1 Initial Valuation

The nonprofit entity would account for the Beneficial Interest in Assets Held by Community Foundation (Beneficial Interest) at fair value based on the fair value of the assets transferred. See valuation discussion noted in Section 1, Step #1.

Step #2 Initial Journal Entries Creation of the Beneficial Interest

Upon transfer of assets to the Community Foundation, the nonprofit would decrease cash or investments and debit the beneficial interest in assets held by community foundation.

Debit: Beneficial Interest in Assets Held by Community Foundation (with donor restricted)
Credit: Cash or investments

If the transfer is considered to be donor endowment funds, the beneficial interest and the investment income would be considered with donor restricted until its appropriated for expenditure.

Step #3 Periodic Valuation:

Similar to investments held by the nonprofit, Beneficial Interest should be revalued routinely (month, quarterly), no less than annually. The valuation methodology followed should be in accordance with ASC 820, see discussion in “Step #1.” The journal entry below relates to donor endowment funds held at the community foundation.

If the changes in value of the beneficial interest at the community foundation increased, to captured the increase, the nonprofit's would record:

Debit: Beneficial Interest
Credit: Gain (with donor restricted net assets)

(To adjust for fair value - debit and credit could be reversed. For a loss the nonprofit would debit investment income and credit beneficial interest)

Presentation and Disclosure by the Nonprofit Entity

As shown above in the accounting entries, the nonprofit would show an asset on its statement of financial position equal to the interest in the fund held at the community foundation.

Required disclosures of an endowment fund:

- *Balance*: The beginning and ending balance of the endowment, including the net asset class
- *Investment return*: The investment income (interest, dividends, rents) and the net appreciation or depreciation of investments
- *Contributions*: The amounts contributed to the endowment
- *Appropriations*: The amounts appropriated for expenditure
- *Reclassifications*: Any reclassifications of the endowment
- *Other changes*: Any other changes to the endowment
- *Spending policy*: The organization's policy for spending from the endowment
- *Underwater endowments*: The value of the original gift, the fair value of the endowment, the number of underwater funds, and the organization's spending policy for underwater endowments

In addition, as provided at FASB ASC 958-605-50-6, the nonprofit should disclose the following in its financial statements:

1. Whether variance power was granted to the community foundation and, if so, a description of the terms of the variance power
2. The terms under which the community foundation will distribute amounts to the nonprofit, and
3. The aggregate amount reported in the statement of financial position and how that amount is described.

Donor Endowment Fund:

The Organization has transferred assets to the XX Community Foundation (the "Foundation") which is holding them as an endowed component fund ("Fund") for the benefit of the Organization. The Fund is subject to the Foundation's investment and spending policies which currently result in a distribution to the Organization of 5 percent of the average quarterly value over the previous 12 quarters[1]. The Organization reports the fair value of the Fund as Beneficial Interest in Assets Held at the XX Community Foundation in the statement of financial position and reports distributions received as investment income.

Changes in the value of the Fund are reported as gains or losses in the statement of activities. Changes in the Fund for the year ended June 30, XX24, are as follows:

Balance at July 1, 20XX	$500,452
Additional amounts invested in Fund	50,000
Share of appreciation of fund	10,000
Distributions received	(25,000)
Balance at June 30, 20XY	$ 535,452

Differences between GAAP and Tax Reporting by the Nonprofit

There are generally two approaches to tax reporting by community foundations and non-profits 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.

[1] The nonprofit should independently create a spending policy which is in accordance with internal policies, donor agreement, and UPMIFA. The nonprofit may consider and align their spending policy with the community foundation, if deemed appropriate. If there is a deviation, the nonprofit should disclose their spending policy versus the community foundation's. Regardless, its suggested and encouraged to disclose how distributions is determined by the community foundation to the nonprofit regardless.

Tax Reporting Consistent with GAAP Reporting:

For an agency fund transaction where a nonprofit 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. The nonprofit entity should then report the activity consistent with GAAP reporting with contributions as income, investment activity as income, and grants paid out as expense.

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 nonprofit entity are reported in Part VIII as the nonprofit sets up an agency endowment, while the nonprofit entity reports expense as a grant to the community foundation on their Form 990.