
Accounting for Endowments and Institutional Investments

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Ohio has recently enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which updates investment and expenditure policies for Non Profit Organizations (NPOs). As a result of UPMIFA, the Financial Accounting Standards Board (FASB) has released Staff Position No. 117-1 (FSP 117-1) "Endowments of Not-for-Profit Organizations" (FASC 958-205-05-8). Summarized below are a few of the key points related to this act and the related accounting guidance:

- UPMIFA is applicable when a donor's intent is not explicitly expressed and applies to funds established after June 1, 2009 and to decisions made after June 1, 2009 for funds in place prior to that date.
- UPMIFA provides guidance for the NPO to spend an amount that is prudent and consistent with the purpose of the gift, which can be more than the historic dollar value of the gift (fair market value at the date of the gift plus any subsequent donations).
- UPMIFA defines prudent use as being no more than 5% of the fair market value of the gift, calculated quarterly over the past 12 quarters (3 years).
- Practically, this means that a NPO can spend below the historic dollar value threshold of the investment (if deemed prudent) where they could not do so under prior regulations.
- A prudent person acts in good faith and with the care of an ordinarily prudent person in a like position under similar circumstances.
- UPMIFA states that "unless stated otherwise in the gift instrument, the assets in an endowment are donor-restricted assets until appropriated for expenditure by the institution."
- UPMIFA allows the release or modification of restrictions related to investment, management and purpose of an endowment fund by either donor consent, court order, or the NPO, so long as the fund is being used for the charitable purpose of the organization.
 - This takes the current and recent market conditions into consideration based on investment losses incurred by many NPOs.

- UPMIFA requires diversification, unless there is appropriate documentation and a clear investment strategy that contradicts the need for diversification.
- FSP 117-1 is effective for years ending after December 15, 2008 and provides guidance on net asset classification for donor-restricted endowment funds; however, Ohio NPOs are required to adopt the net asset provisions effective June 1, 2009 based on UPMIFA's effective date.
- The provisions require NPOs to classify a portion of donor-restricted endowments as permanently restricted net assets based on the amount of the fund that:
 - Must be retained permanently in accordance with explicit donor stipulations, or
 - In the absence of donor stipulations, the amount the governing board approves must be preserved permanently in accordance with the law.
- In addition, the NPO shall classify the portion of the fund that is not classified as permanently restricted net assets as temporarily restricted net assets based on time restrictions until the funds are appropriated for expenditure by the NPO.
 - "Appropriated" is defined as being approved for expenditures, unless the approval is for a future period, in which the appropriation would occur when the period is reached.
- FSP 117-1 requires specific and detailed disclosures in the financial statements of all NPOs, even if they are not subject to UPMIFA, including:
 - A description of the governing board's interpretation of the law(s) that underlies the NPO's net asset classification of donor-restricted endowment funds
 - A description of the NPO's policy for the appropriation of endowment assets for expenditure (endowment spending policy)
 - A description of the NPO's endowment investment policies, including return objectives, risk parameters, how the objectives related to the endowment spending policies, and strategies employed for achieving those objectives
 - The composition of the endowments by net asset class, in total and by type of endowment fund, showing donor-restricted endowment funds separately from board-designated endowment funds
 - A reconciliation of the beginning and ending balance of the endowments, in total and by net asset class, including (at a minimum): investment income, net appreciation/depreciation on investments, contributions, amounts appropriated for expenditure, reclassifications, and other changes.



What should you do?

- Board Members should review the endowment funds and determine if there are any funds where a policy is needed to establish how much should be permanently restricted.
- Review all investments held by your NPO and have sufficient and clear documentation to support the donor's intent, if applicable.
- If your board includes individuals with investment knowledge and skills, note that a person with special skills or expertise (or a person who represents they have these skills/expertise), has a duty to use those skills and expertise in managing and investing institutional funds. Therefore, that person is held to a higher standard than other board members.
- Board Members should review the investment policy and current investments. If investment holdings are not diversified, the investment policy needs to clearly identify why diversification is not necessary for the purpose of the funds.