

**FSP No. FAS 117-1, Endowments of Not-for-Profit
Organizations: Net Asset Classification of Funds Subject to an
Enacted Version of the Uniform Prudent Management of
Institutional Funds Act, and Enhanced Disclosures for All
Endowment Funds**

companion accounting guidance for

Uniform Prudent Management of Institutional Funds Act

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**ABA Section of Taxation and Section of Real Property, Trust and
Estate Sections – Joint Fall Meeting**

September 12, 2008

I. Key Definitions and Relevant Accounting Standards

Related Accounting Literature

- Financial Accounting Standard (FAS) 116: Accounting for Contributions Made and Contributions Received
- FAS 117: Financial Statements of Not-for-Profit Organizations
- FAS 124: Accounting for Certain Investments Held by Not-for-Profit Organizations
- FSP 117-1: Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of UPMIFA and Enhanced Disclosures for All Endowment Funds

Endowment and Restriction Concepts in Accounting Literature

- Endowment Fund
 - "An established fund of cash, securities, or other assets to provide income for the maintenance of a not-for-profit organization. The use of the assets of the fund may be permanently restricted, temporarily restricted, or unrestricted. Endowment funds generally are established by donor-restricted gifts and bequests to provide a permanent endowment, which is to provide a permanent source of income, or a term endowment, which is to provide income for a specified period. The portion of a **permanent endowment** that must be maintained permanently—not used up, expended, or otherwise exhausted—is classified as permanently restricted net assets. The portion of a **term endowment** that must be maintained for a specified term is classified as temporarily restricted net assets. An organization's governing board may earmark a portion of its unrestricted net assets as a **board-designated endowment** (sometimes called funds functioning as endowment or quasi-endowment funds) to be invested to provide income for a long but unspecified period. A board-designated endowment, which results from an internal designation, is not donor restricted and is classified as unrestricted net assets."
- Restricted support:
 - "**Donor** restricted revenues or gains from contributions that increase either temporarily restricted net assets or permanently restricted net assets."
 - Donor intent and applicable law are the determining factors in the resulting accounting presentation
- Permanent Restriction:
 - "A donor imposed restriction that stipulates that resources be maintained permanently but permits the organization to use up or expend part or all of the income (or other economic benefits) derived from the donated assets
 - The portion of a donor-restricted endowment fund that is classified as permanently restricted is that amount which (a) must be retained permanently in accordance with explicit donor stipulations, or (b) that in the absence of such stipulations, the organization's governing board

determines must be retained (preserved) permanently consistent with the relevant law. Under UMIFA and related accounting literature this was the historic dollar value of the original gift. Under UPMIFA, depending on the governing board's interpretation of relevant law, this may include some appreciation to maintain the original purchasing power of the fund.

- Temporarily Restricted
 - A donor-imposed restriction that permits the donee organization to use up or expend the donated assets as specified and is satisfied either by the passage of time or by actions of the organization.
- Unrestricted support
 - "Revenues or gains from contributions that are not restricted by donors"
- First dollar rule concept in FAS 116 - "If an expense is incurred for a purpose for which both unrestricted and temporarily restricted net assets are available, a donor-imposed restriction is fulfilled to the extent of the expense incurred unless the expense is for a purpose that is directly attributable to another specific external source of revenue."
- Underwater endowments - a fund with current fair market value below original contribution value. The new standard does not change accounting for underwater funds - the portion of a donor-restricted endowment fund that is classified as permanently restricted net assets is not reduced by losses on the investments of the fund, except to the extent required by the donor, including losses related to specific investments that the donor requires the organization to hold in perpetuity.

II. FSP 117-1 Overview

- Effective for fiscal years ending after December 15, 2008, early adoption is permitted
- Provides guidance on net asset classification of donor-restricted endowment funds in states that have enacted UPMIFA
- Requires retroactive application to earliest period presented
- Disclosure requirements apply to all organizations
 - Description of governing board's interpretation of law
 - Organization's endowment spending and investment policies
 - Composition of endowment by net asset class (both donor- restricted and board-designated endowment funds)
 - Roll-forward of beginning and ending endowment balances by net asset class including: invest income, investment appreciation/depreciation, contributions, expenditures, reclassifications and other.

Key Changes from UMIFA

- Requires investment income (includes appreciation) to be temporarily restricted until appropriated for expenditure. This creates a time restriction that must be first satisfied in addition to any purpose restriction. For example:

	<u>Fund Detail</u>
Initial Gift	\$ 1,000,000
Appreciation credited to gift fund	150,000
Dividends/interest credited to gift fund	50,000
Spending rate appropriation *	<u>(50,000)</u>
Ending fund balance	<u>\$ 1,150,000</u>

* Spending rate funds approved by Hospital A's governing board and transferred to board designated investments.

<u>Balance Sheet</u>	<u>Prior to adoption of FSP 117-1</u>	<u>After adoption of FSP 117-1</u>
Assets whose use is limited **	<u>\$ 1,200,000</u>	<u>\$ 1,200,000</u>
Total assets	<u>\$ 1,200,000</u>	<u>\$ 1,200,000</u>
Unrestricted net assets	\$ 200,000	\$ 50,000
Temporarily restricted net assets	-	150,000
Permanently restricted net assets	<u>1,000,000</u>	<u>1,000,000</u>
Total net assets	<u>\$ 1,200,000</u>	<u>\$ 1,200,000</u>

** Includes board designated investments.

- Historic dollar value versus maintenance of purchasing power

	Prior to adoption of FSP 117-1	Post adoption of FSP 117-1
Assets whose use is limited	<u>\$ 1,200,000</u>	<u>\$ 1,200,000</u>
Total assets	<u>\$ 1,200,000</u>	<u>\$ 1,200,000</u>
Unrestricted net assets	\$ 200,000	\$ 100,000
Temporarily restricted net assets	-	-
Permanently restricted net assets	<u>1,000,000</u>	<u>1,100,000</u> *
Total net assets	<u>\$ 1,200,000</u>	<u>\$ 1,200,000</u>

* Assumes \$100,000 of inflation since gift inception.

Questions or Comments:

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