



# Thank you for joining us!

The presentation will begin shortly.



accountingTODAY

**2023 Best Firms to Work For**

accountingTODAY

**2023 Firms to Watch**

accountingTODAY

**2023 Regional Leaders**

# Navigating the Complexities of Endowments

*Thursday, August 15, 2024*



CPAs & ADVISORS

Alejandra Jensen, CPA, CFE  
*Partner,  
Audit*

Fred Longwood  
*Senior Manager,  
NP Tax*

Alison Conklin, CPA  
*Senior Manager,  
Audit*

# Presenters

*Meet the instructors*

---



**Alejandra Jensen**  
Partner



**Fred Longwood**  
Senior Manager



**Alison Conklin**  
Senior Manager



---

# Housekeeping

## *Additional Information*

<b>Learning Objective</b> To provide attendees with an overview of endowments.	<b>Instructional Delivery Methods</b> Group Internet-based
<b>Recommended CPE</b> 1 CPE Credit	<b>Recommended Fields of Study</b> Specialized Knowledge
<b>Prerequisites</b> None required	<b>Advance Preparation</b> None
<b>Program Level</b> Basic	<b>Course Registration Requirements</b> None
<b>Refund Policy</b> No fee is required to participate in this session.	<b>Cancellation Policy</b> In the event that the presentation is cancelled or rescheduled, participants will be contacted immediately with details.
<b>Complaint Resolution Policy</b> GRF CPAs & Advisors is committed to our participants' 100% satisfaction and will make every reasonable effort to resolve complaints as quickly as possible. Please contact <a href="mailto:kdavis@grfcpa.com">kdavis@grfcpa.com</a> with any concerns.	
<b>Disclaimer</b> This webinar is not intended as, and should not be taken as, financial, tax, accounting, legal, consulting or any other type of advice. Readers and users of this webinar information are advised not to act upon this information without seeking the service of a professional accountant.	

# GRF CPAs & Advisors



Personal  
Service With  
Powerful  
Solutions

Audit & Advisory Firm Headquartered in Washington, DC Metro Region,  
servicing clients across the United States and worldwide



# GRF Solutions

---

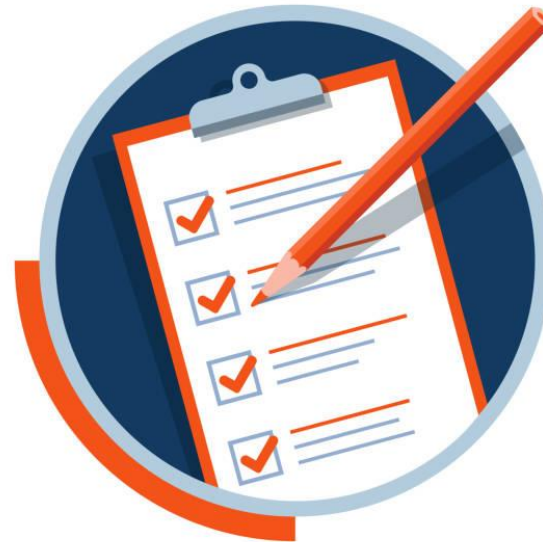


**CPAs & ADVISORS**

# Agenda

---

1. What is an endowment?
2. Types of endowments
3. UPMIFA
4. Common Endowment Issues Noted in Audits
5. Accounting for Endowments
6. Underwater Endowments
7. Reporting/Disclosures
8. Endowments in Form 990



# Polling Question #1

Does your organization have an endowment?

A. *Yes*

B. *No*



# Introduction

---

*Overview and Recap*



# What is an endowment?

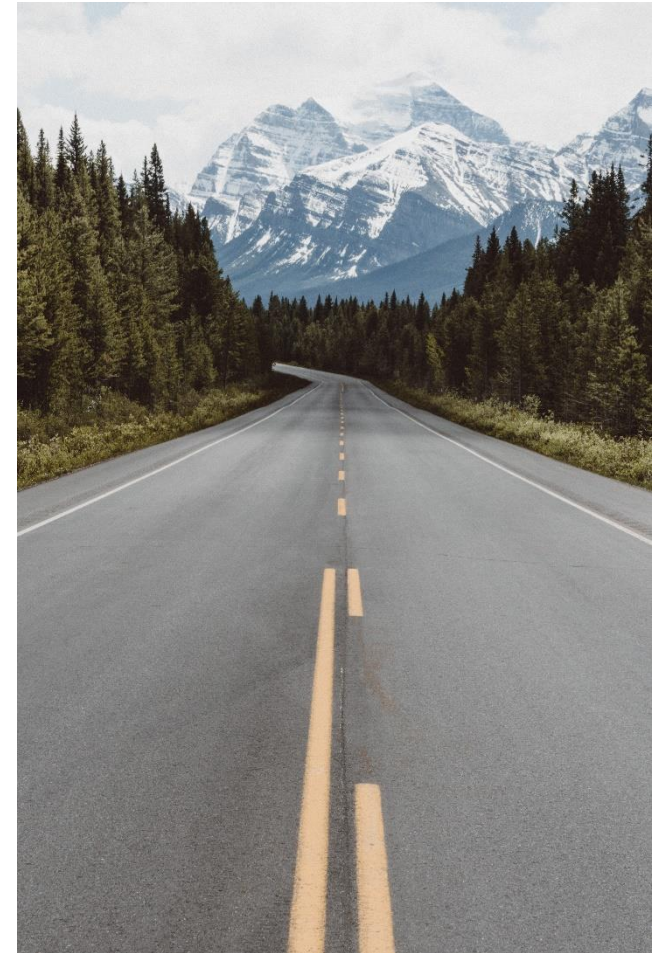
---

- A fund of cash, securities or other assets to provide income for the maintenance of a nonprofit organization
- Typically established by a donor or governing Board
- Governed by guiding documents
- Types of Endowments
  - Perpetual
  - Term (uncommon)
  - Quasi-endowment (i.e. Board designated)

# Endowments with or without restrictions

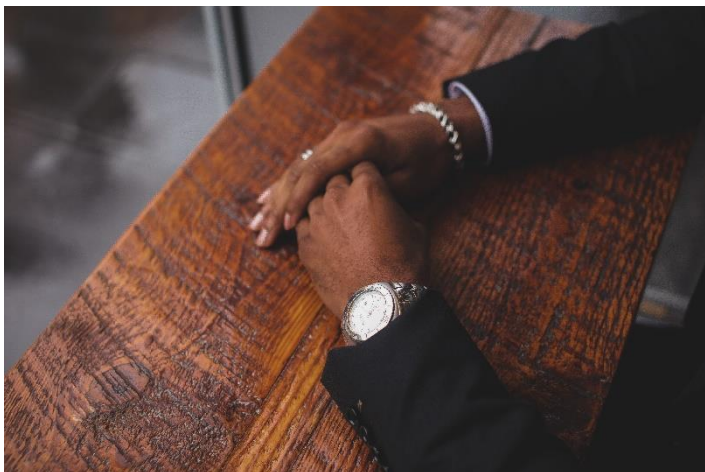
---

- A donor restricted endowment fund – established when a donor stipulates that a gift must be invested in perpetuity or for a specified term. Donors or laws may require that a portion of the income and/or gains be added to the gift and invested, subject to restrictions.



# Endowments with or without restrictions

---



- A board-designated (quasi) endowment fund is established when the nonprofit's governance designates a portion of its net assets without donor restrictions for investment for long period of time

# UPMIFA

---

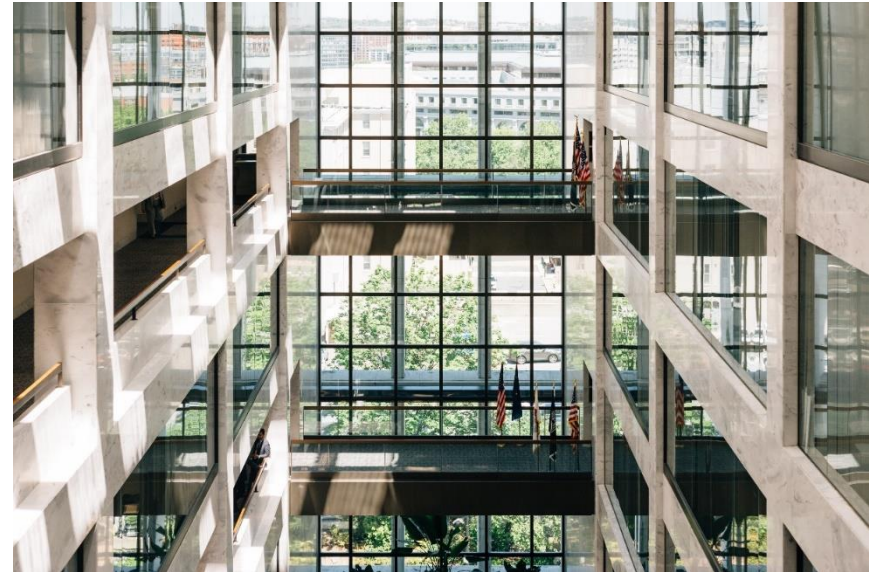
- The Uniform Prudent Management of Institutional Funds Act – A uniform act that provides guidance on investment decisions and endowment expenditures
- Goals include:
  - Invest at a rate that preserves the purchasing power of the principal over the long-term
  - Spend at a rate that reflects the donor's intentions over the long-term
- Does not apply to quasi-endowments



# Importance of accounting for endowments

---

- Reputational risk
- Potential that the NFP cannot comply with the restrictions
- Donor enforcement
- Donor actions/default
- Conflicts of interest
- Lack of clarity in agreement



# Common issues noted in accounting for endowments

---

- Improperly classifying endowment earnings as without donor restrictions (for those without specific restrictions)
- Improperly tracking/calculating investment earnings
- Endowment agreements/award documentation not retained or missing
- Governance (i.e. BOD) sets up a donor restricted endowment (typically not allowed but there is an exception to this rule under FASB Codification 958-205-45-13A)
- NFP protecting the “corpus” only
- Not following its spending and/or investment policy



# Accounting for Endowments

---

# Recording of endowment activity

---

## Donor-restricted endowment

- Record original gift amount as with donor restrictions
- Record investment earnings as with donor restrictions
- Appropriation of expenditure (transfers from restricted to without restrictions)



# Recording of endowment activity

## Board-designated endowment

- Record amount as without donor restrictions
- Record investment earnings as without donor restrictions
- Appropriation of expenditure





# Example journal entries – donor restricted

	DEBIT	CREDIT
<b><u>To record initial contributions</u></b>		
Cash	\$1,000,000	
Contribution/grant revenue with donor restrictions		\$1,000,000
<b><u>To record transfer from cash to investments</u></b>		
Investments	\$1,000,000	
Cash		\$1,000,000
<b><u>To record investment return</u></b>		
Investments	\$100,000	
Investment return (with donor restrictions)		\$100,000

# Example - Statement of activities

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>SUPPORT AND REVENUE</b>			
Contributions and grants	100,000	1,000,000	1,100,000
Net investment return	1,000	100,000	101,000
Net assets released from donor restrictions	10,000	(10,000)	-
Total support and revenue	111,000	1,090,000	1,201,000

# Example - Statement of financial position

---

## CURRENT ASSETS

Cash and cash equivalents	-
Investments	1,191,000
	<hr/>

**TOTAL ASSETS** **\$1,191,000**

## NET ASSETS

Without donor restrictions:

Undesignated	-
Board designated	101,000
Total without donor restrictions	<hr/> 101,000

With donor restrictions 1,090,000

Total net assets 

---

1,191,000

**TOTAL LIABILITIES AND NET ASSETS** **\$1,191,000**

# Underwater endowments

- A donor restricted endowment fund with a fair value at the reporting date that is LESS than either the original gift amount or the amount required to be maintained by the donor or law
- Accumulated losses should be included with net assets with donor restrictions
- Disclosures required per FASB 958-205-50-2
  - The fair value of the fund
  - The original endowment gift amount
  - The amount of the deficiencies



## **Polling Question #2**

Does your organization follow UPMIFA?

*A. Yes*

*B. No*



# Disclosures

---



# Minimum disclosures required

---

- A description of the governing board's interpretation of the law or laws that underlie the NFP's net asset classification of donor-restricted endowment funds
- A description of the NFP's policy or policies for the appropriation of endowment assets for expenditure (its endowment spending policy or policies)
- A description of the NFP's endowment investment policies, including all of the following:  
Return objectives & risk parameters, how it relates to spending policies, & strategies employed

# Minimum disclosures required

---

- The composition of the NFP's endowment by net asset class at the end of the period, in total & by type of endowment fund, showing donor-restricted endowment funds separately from board-designated endowment funds
- Reconciliation of the beginning & ending balance of the endowment fund, including: Net investment return, contributions, amounts appropriated for expense, other changes

# Example of disclosure

## ENDOWMENT FUNDS

The Organization's endowment funds consist of both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments (quasi-endowments). As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

### Interpretation of relevant law -

The Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) enacted by the STATE as requiring the preservation of the fair value of the original gift made to the donor-restricted endowment funds, absent explicit donor stipulations to the contrary.

As a result, of this interpretation, Organization classifies as net assets with donor restrictions: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Additionally, in accordance with UPMIFA, Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purpose of the organization and the donor-restricted endowment fund;
- General economic conditions and the possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments; and
- Investment policies of the organization.

### Return Objectives and Risk Parameters -

The Organization has adopted an investment policy for endowment assets that attempts to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor specified period(s) as well as board-designated funds. The endowment assets are invested in a conservative manner in mutual funds with the expectation to provide an average annual rate of return of more than 7% for equities and more than 3% for fixed income. Actual returns in any given year may vary from this amount.

### Strategies Employed for Achieving Objectives -

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

### Spending Policy and How the Investment Objectives Relate to Spending Policy -

The Organization has adopted a spending policy for its endowment funds such that, over the long-term, the Organization expects the current spending policy to allow its endowments to grow at an average of 8% annually. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.



# Example of disclosure

Endowment funds consisted of the following as of December 31, 2023:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>		
		<u>Available for Appropriation</u>	<u>Held in Perpetuity</u>	<u>Total</u>
Board designated funds	\$ 101,000	\$ -	\$ -	\$ 101,000
Donor restricted funds	<u>-</u>	<u>90,000</u>	<u>1,000,000</u>	<u>1,090,000</u>
<b>ENDOWMENT FUNDS</b>	<b><u>\$ 101,000</u></b>	<b><u>\$ 90,000</u></b>	<b><u>\$ 1,000,000</u></b>	<b><u>\$ 1,191,000</u></b>

Changes in endowment funds consisted of the following as of and for the year ended December 31, 2023:

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>		
		<u>Available for Appropriation</u>	<u>Held in Perpetuity</u>	<u>Total</u>
Endowment funds, beginning of year	\$ -	\$ -	\$ -	\$ -
Contributions	100,000	-	1,000,000	1,100,000
Net investment return	1,000	100,000	-	101,000
Appropriations	<u>-</u>	<u>(10,000)</u>	<u>-</u>	<u>(10,000)</u>
<b>ENDOWMENT FUNDS, END OF YEAR</b>	<b><u>\$ 101,000</u></b>	<b><u>\$ 90,000</u></b>	<b><u>\$ 1,000,000</u></b>	<b><u>\$ 1,191,000</u></b>



# Example of disclosure (Underwater)

Endowment funds consisted of the following as of December 31, 2023:

	Without donor restrictions	With donor restrictions		Total
		Available for Appropriation	Held in Perpetuity	
Board designated funds	\$ 100,000	\$ -	\$ -	\$ 100,000
Donor restricted funds	-	(10,000)	1,000,000	990,000
<b>ENDOWMENT FUNDS</b>	<b>\$ 100,000</b>	<b>\$ (10,000)</b>	<b>\$ 1,000,000</b>	<b>\$ 1,090,000</b>

Changes in endowment funds consisted of the following as of and for the year ended December 31, 2023:

	Without donor restrictions	With donor restrictions		Total
		Available for Appropriation	Held in Perpetuity	
Endowment funds, beginning of year	\$ -	\$ -	\$ -	\$ -
Contributions	100,000	-	1,000,000	1,100,000
Net investment return	-	(10,000)	-	(10,000)
<b>ENDOWMENT FUNDS, END OF YEAR</b>	<b>\$ 100,000</b>	<b>\$ (10,000)</b>	<b>\$ 1,000,000</b>	<b>\$ 1,090,000</b>

# Polling Question #3

Was your endowment underwater in 2022?

A. *Yes*

B. *No*



# Checklist of required schedules

---





**Part IV Checklist of Required Schedules**

	Yes	No
<b>1</b> Is the organization described in section 501(c)(3) or 4947(a)(1) (other than a private foundation)? <i>If "Yes," complete Schedule A</i> .....		X
<b>2</b> Is the organization required to complete <i>Schedule B, Schedule of Contributors</i> ? See instructions .....		X
<b>3</b> Did the organization engage in direct or indirect political campaign activities on behalf of or in opposition to candidates for public office? <i>If "Yes," complete Schedule C, Part I</i> .....		X
<b>4</b> <b>Section 501(c)(3) organizations.</b> Did the organization engage in lobbying activities, or have a section 501(h) election in effect during the tax year? <i>If "Yes," complete Schedule C, Part II</i> .....		
<b>5</b> Is the organization a section 501(c)(4), 501(c)(5), or 501(c)(6) organization that receives membership dues, assessments, or similar amounts as defined in Rev. Proc. 98-19? <i>If "Yes," complete Schedule C, Part III</i> .....		X
<b>6</b> Did the organization maintain any donor advised funds or any similar funds or accounts for which donors have the right to provide advice on the distribution or investment of amounts in such funds or accounts? <i>If "Yes," complete Schedule D, Part I</i> .....		X
<b>7</b> Did the organization receive or hold a conservation easement, including easements to preserve open space, the environment, historic land areas, or historic structures? <i>If "Yes," complete Schedule D, Part II</i> .....		X
<b>8</b> Did the organization maintain collections of works of art, historical treasures, or other similar assets? <i>If "Yes," complete Schedule D, Part III</i> .....		X
<b>9</b> Did the organization report an amount in Part X, line 21, for escrow or custodial account liability; serve as a custodian for amounts not listed in Part X; or provide credit counseling, debt management, credit repair, or debt negotiation services? <i>If "Yes," complete Schedule D, Part IV</i> .....		X
<b>10</b> Did the organization, directly or through a related organization, hold assets in donor-restricted endowments or in quasi-endowments? <i>If "Yes," complete Schedule D, Part V</i> .....	X	
<b>11</b> If the organization's answer to any of the following questions is "Yes," then complete Schedule D, Parts VI, VII, VIII, IX, or X, as applicable.		
<b>a</b> Did the organization report an amount for land, buildings, and equipment in Part X, line 10? <i>If "Yes," complete Schedule D, Part VI</i> .....		X
<b>b</b> Did the organization report an amount for investments - other securities in Part X, line 12, that is 5% or more of its total assets reported in Part X, line 16? <i>If "Yes," complete Schedule D, Part VII</i> .....		X
<b>c</b> Did the organization report an amount for investments - program related in Part X, line 13, that is 5% or more of its total assets reported in Part X, line 16? <i>If "Yes," complete Schedule D, Part VIII</i> .....		X

**Part III Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets** (continued)

**3** Using the organization's acquisition, accession, and other records, check any of the following that make significant use of its collection items (check all that apply).

**a** Public exhibition

**b** Scholarly research

**c** Preservation for future generations

**d**  Loan or exchange program

**e**  Other \_\_\_\_\_

**4** Provide a description of the organization's collections and explain how they further the organization's exempt purpose in Part XIII.

**5** During the year, did the organization solicit or receive donations of art, historical treasures, or other similar assets to be sold to raise funds rather than to be maintained as part of the organization's collection? Yes No

**Part IV Escrow and Custodial Arrangements** Complete if the organization answered "Yes" on Form 990, Part IV, line 9, or reported an amount on Form 990, Part X, line 21.

**1a** Is the organization an agent, trustee, custodian, or other intermediary for contributions or other assets not included on Form 990, Part X? Yes No

**b** If "Yes," explain the arrangement in Part XIII and complete the following table:

**c** Beginning balance

**d** Additions during the year

**e** Distributions during the year

**f** Ending balance

	Amount
<b>1c</b>	
<b>1d</b>	
<b>1e</b>	
<b>1f</b>	

**2a** Did the organization include an amount on Form 990, Part X, line 21, for escrow or custodial account liability?  Yes No

**b** If "Yes," explain the arrangement in Part XIII. Check here if the explanation has been provided in Part XIII

**Part V Endowment Funds** Complete if the organization answered "Yes" on Form 990, Part IV, line 10.

	(a) Current year	(b) Prior year	(c) Two years back	(d) Three years back	(e) Four years back
<b>1a</b> Beginning of year balance	722,000.	640,500.	578,500.	542,000.	500,000.
<b>b</b> Contributions	125,000.	100,000.	75,000.	50,000.	50,000.
<b>c</b> Net investment earnings, gains, and losses	40,000.	35,000.	30,000.	25,000.	24,500.
<b>d</b> Grants or scholarships	50,000.	50,000.	40,000.	35,000.	30,000.
<b>e</b> Other expenditures for facilities and programs	0.	0.	0.	1,000.	0.
<b>f</b> Administrative expenses	3,750.	3,500.	3,000.	2,500.	2,500.
<b>g</b> End of year balance	833,250.	722,000.	640,500.	578,500.	542,000.

**2** Provide the estimated percentage of the current year end balance (line 1g, column (a)) held as:

**a** Board designated or quasi-endowment 10.0000 %

**b** Permanent endowment 15.0000 %

**c** Term endowment 75.0000 %

The percentages on lines 2a, 2b, and 2c should equal 100%.

**3a** Are there endowment funds not in the possession of the organization that are held and administered for the organization by:

**(i)** Unrelated organizations? Yes No

**(ii)** Related organizations? Yes No

	Yes	No
<b>3a(i)</b>		X
<b>3a(ii)</b>		X
<b>3b</b>		

**b** If "Yes" on line 3a(ii), are the related organizations listed as required on Schedule R? Yes No

**4** Describe in Part XIII the intended uses of the organization's endowment funds.



**Part V Endowment Funds** Complete if the organization answered "Yes" on Form 990, Part IV, line 10.

	(a) Current year	(b) Prior year	(c) Two years back	(d) Three years back	(e) Four years back
1a Beginning of year balance .....	722,000.	640,500.	578,500.	542,000.	500,000.
b Contributions .....	125,000.	100,000.	75,000.	50,000.	50,000.
c Net investment earnings, gains, and losses .....	40,000.	35,000.	30,000.	25,000.	24,500.
d Grants or scholarships .....	50,000.	50,000.	40,000.	35,000.	30,000.
e Other expenditures for facilities and programs .....	0.	0.	0.	1,000.	0.
f Administrative expenses .....	3,750.	3,500.	3,000.	2,500.	2,500.
g End of year balance .....	833,250.	722,000.	640,500.	578,500.	542,000.

2 Provide the estimated percentage of the current year end balance (line 1g, column (a)) held as:

- a Board designated or quasi-endowment 10.0000 %
- b Permanent endowment 15.0000 %
- c Term endowment 75.0000 %

The percentages on lines 2a, 2b, and 2c should equal 100%.

3a Are there endowment funds not in the possession of the organization that are held and administered for the organization by:

- (i) Unrelated organizations? .....
- (ii) Related organizations? .....

	Yes	No
3a(i)		X
3a(ii)		X
3b		

b If "Yes" on line 3a(ii), are the related organizations listed as required on Schedule R? .....

4 Describe in Part XIII the intended uses of the organization's endowment funds.

**Part XI Reconciliation of Revenue per Audited Financial Statements With Revenue per Return**

Complete if the organization answered "Yes" on Form 990, Part IV, line 12a.

<b>1</b>	Total revenue, gains, and other support per audited financial statements .....		<b>1</b>	
<b>2</b>	Amounts included on line 1 but not on Form 990, Part VIII, line 12:			
<b>a</b>	Net unrealized gains (losses) on investments .....	<b>2a</b>		
<b>b</b>	Donated services and use of facilities .....	<b>2b</b>		
<b>c</b>	Recoveries of prior year grants .....	<b>2c</b>		
<b>d</b>	Other (Describe in Part XIII.) .....	<b>2d</b>		
<b>e</b>	Add lines <b>2a</b> through <b>2d</b> .....		<b>2e</b>	
<b>3</b>	Subtract line <b>2e</b> from line <b>1</b> .....		<b>3</b>	
<b>4</b>	Amounts included on Form 990, Part VIII, line 12, but not on line 1:			
<b>a</b>	Investment expenses not included on Form 990, Part VIII, line 7b .....	<b>4a</b>		
<b>b</b>	Other (Describe in Part XIII.) .....	<b>4b</b>		
<b>c</b>	Add lines <b>4a</b> and <b>4b</b> .....		<b>4c</b>	
<b>5</b>	Total revenue. Add lines <b>3</b> and <b>4c</b> . (This must equal Form 990, Part I, line 12.) .....		<b>5</b>	

**Part XII Reconciliation of Expenses per Audited Financial Statements With Expenses per Return**

Complete if the organization answered "Yes" on Form 990, Part IV, line 12a.

<b>1</b>	Total expenses and losses per audited financial statements .....		<b>1</b>	
<b>2</b>	Amounts included on line 1 but not on Form 990, Part IX, line 25:			
<b>a</b>	Donated services and use of facilities .....	<b>2a</b>		
<b>b</b>	Prior year adjustments .....	<b>2b</b>		
<b>c</b>	Other losses .....	<b>2c</b>		
<b>d</b>	Other (Describe in Part XIII.) .....	<b>2d</b>		
<b>e</b>	Add lines <b>2a</b> through <b>2d</b> .....		<b>2e</b>	
<b>3</b>	Subtract line <b>2e</b> from line <b>1</b> .....		<b>3</b>	
<b>4</b>	Amounts included on Form 990, Part IX, line 25, but not on line 1:			
<b>a</b>	Investment expenses not included on Form 990, Part VIII, line 7b .....	<b>4a</b>		
<b>b</b>	Other (Describe in Part XIII.) .....	<b>4b</b>		
<b>c</b>	Add lines <b>4a</b> and <b>4b</b> .....		<b>4c</b>	
<b>5</b>	Total expenses. Add lines <b>3</b> and <b>4c</b> . (This must equal Form 990, Part I, line 18.) .....		<b>5</b>	

**Part XIII Supplemental Information**

Provide the descriptions required for Part II, lines 3, 5, and 9; Part III, lines 1a and 4; Part IV, lines 1b and 2b; Part V, line 4; Part X, line 2; Part XI, lines 2d and 4b; and Part XII, lines 2d and 4b. Also complete this part to provide any additional information.

**PART V, LINE 4:****ENDOWMENT FUNDS ARE HELD TO SUPPORT THE ORGANIZATION'S MISSION AS WELL AS****TO FUND THE ORGANIZATION'S SCHOLARSHIP PROGRAM. SPENDING AND INVESTMENT****INITIATIVES ARE CONSISTENT WITH THE ORGANIZATION'S INVESTMENT POLICY.**



# Final Thoughts

---



# Questions?

Contact Us



## CPAs & ADVISORS



Offices in DC and NYC

Serving clients across the globe

301-951-9090 | [www.grfcpa.com](http://www.grfcpa.com)



**Alejandra Jensen**  
Partner



**Fred Longwood**  
Senior Manager



**Alison Conklin**  
Senior Manager







# Disclaimer

---

*This webinar is not intended as, and should not be taken as, financial, tax, accounting, legal, consulting or any other type of advice. While we use reasonable efforts to furnish accurate and up-to-date information, we do not warrant that any information contained in or made available in this webinar is accurate, complete, reliable, current or error-free. We assume no liability or responsibility for any errors or omissions in the content of this webinar.*

*The use of the information provided in this webinar does not establish any contractual or other form of client engagement between GRF CPAs & Advisors and the reader or user. Any U.S. federal tax advice contained in this webinar is not intended to be used for the purpose of avoiding penalties under U.S. federal tax law. Readers and users of this webinar information are advised not to act upon this information without seeking the service of a professional accountant.*