



Endowment Accounting Considerations

An endowment is a fund of cash, securities, or other assets which provide annual income for the ongoing support of a nonprofit organization. An endowment fund can be created via either a donor-restricted gift or at the establishment of the organization's board (referred to as quasi-endowments).

- **Donor restricted endowment fund** – A donor restricted endowment fund is created when a donor stipulates that contributed assets be invested either for perpetuity (permanently restricted net assets) or for a specified period of time (temporarily restricted net assets).
- **Quasi endowment funds** (also referred to as funds functioning as endowments) - Board designated resources to be held and invested for specified purposes and for a long, but unspecified, period of time. Balances are considered unrestricted net assets as they are created from other unrestricted funds.



Net asset classification and tracking of endowment funds

In determining the proper net asset classification, each component of the fund (the original asset gift, asset gains/losses, and interest/dividends) will be evaluated to determine whether they should be included in unrestricted net assets, temporarily restricted net assets, or permanently restricted net assets.

For donor-restricted endowment funds, net asset classification can vary depending on the specifications of the donor's gift. Each gift must be evaluated depending on

the relevant facts and circumstances. For example, if a donor stated that the original gift must be maintained in perpetuity but that any earnings can be used for organization purposes, the original gift will be classified

as a permanently restricted net asset and the asset earnings will be temporarily restricted net assets until appropriated for expenditure.

In cases where the donor is silent in regards to treatment on all elements of the restricted gift, state specific law should be used to determine the proper treatment.

Quasi endowments are created by governing boards out of unrestricted net assets and therefore should be classified as unrestricted net assets.

Endowment financial statement disclosures

The following disclosures are required for organizations with endowments.

- A description of the organization's interpretation of the laws that underlie their net asset classification of donor-restricted endowment funds (this is not necessary for quasi-endowment funds).

- A description of the organization’s spending policies for endowment funds (how endowment assets get appropriated for expenditures).
- A description of the organization’s investment policies (including return objectives and general risk parameters).
- Composition of the organization’s endowment by net asset class (unrestricted, temporarily restricted, and permanently restricted)
- Reconciliation of the beginning and ending balances of the organization’s endowment (investment income, investment return, contributions, expenditures, other changes).
- If the fair value of a donor-restricted endowment fund is less than the amount required by the donor, by law the amount of the deficiency must be disclosed.
- An organization can request that a court remove or modify the restrictions. This is typical in cases where the restriction has become impracticable, wasteful or more commonly, in situations where unforeseen circumstances results in a needed change.
- For smaller funds, there are methods to remove or modify restrictions depending on your state laws. In the State of Washington this can be done if all of the following conditions are met:
 - The fund is at or below a specified value (increased each fiscal year);
 - More than 20 years has passed since the fund was established; and
 - Once released, the funds will be used in a manner reasonably consistent with the charitable purpose expressed.

Changes to donor-restricted endowments funds

Certain circumstances may arise that require the organization to change or remove donor restrictions on endowment funds. Below are some avenues to pursue if such a need should arise.

- A donor can provide written consent for the removal or modification of restrictions associated with an endowment.

New guidance is coming...

New financial presentation guidance is applicable for most nonprofit organizations effective for years beginning after December 15, 2017. It will change some of the terminology and how endowments are grouped and presented. Stay tuned for more updates.

