



# Accounting and Disclosures Investments and Endowments

# Notes to the financial statements

Not-for-profit entities are subject to many of the same notes to the financial statements as any business enterprise. However, FASB ASC's incremental industry-specific guidance for NFPs also contains requirements specifically for NFPs.



# Four broad categories of investments

<b>1</b>	Investments in equity securities with readily determinable fair values (other than consolidated subsidiaries and equity securities reported under the equity method) and all investments in debt securities, which are investments that are subject to the requirements of FASB ASC 958-320
<b>2</b>	Investments that are accounted for under the equity method
<b>3</b>	Investments in derivative instruments that are subject to the requirements of FASB ASC 815 (If an investment would otherwise be in the scope of FASB ASC 958-320 and it has within it an embedded derivative that is subject to FASB ASC 815, the host contract [as described in FASB ASC 815-15-05-1] remains within the scope of FASB ASC 958-320.)
<b>4</b>	Other investments, which are those included in the scope of FASB ASC 958-325 (For example, certain investments in real estate, mortgage notes that are not debt securities, venture capital funds, certain partnership interests, oil and gas interests, and certain equity securities that do not have a readily determinable fair value. Other investments do not include investments described in the preceding three items or investments in consolidated subsidiaries.)

# Initial recognition

Investments are initially recorded at their acquisition cost (including brokerage and other transaction fees) if they were purchased, and at fair value, if they were received as a contribution or through an agency transaction.



# Investment income

Dividend, interest, and other investment income should be reported in the period earned as increases in net assets without donor restrictions unless the use of the assets received is limited by donor-imposed restrictions.

Donor-restricted investment income should be reported as an increase in net assets with donor restrictions.

# Valuation subsequent to acquisition

FASB ASC 958-320-35-1 provides that investments in equity securities with readily determinable fair value and all debt securities should be reported at their fair value.



# Reporting gains and losses

## Facts

1. In 20X1, an NFP entity with a December 31 year-end purchases an equity security with a readily determinable fair value for \$5,000.
2. At December 31, 20X1, the fair value of the security is \$7,000.
3. During 20X2, the security is sold for \$11,000.

## Reporting gains and losses

20X1	Recognize a \$2,000 gain and adjust the carrying value to \$7,000. (The reported gain equals \$7,000 fair value less \$5,000 carrying value.)
20X2	Recognize a \$4,000 gain and adjust the carrying value to zero. (The gain may be reported as the net of \$11,000 selling price less the \$7,000 carrying value at the time the security was sold. Alternatively, the gain may be displayed as the realized gain of \$6,000 [\$11,000 selling price less \$5,000 cost] less the \$2,000 unrealized gain previously recognized.)

# Net assets of an endowment fund

A not-for-profit shall report the net assets of an endowment fund in a statement of financial position within the two classes of net assets based on the existence or absence of donor-imposed restrictions:

<b>Net assets with donor restrictions (perpetual)</b>	<b>Net assets with donor restrictions (time)</b>	<b>Net assets without donor restrictions</b>
For example, the portion of a permanent endowment that must be maintained permanently—not used up, expended, or otherwise exhausted—is classified as net assets with donor restriction that are perpetual.	For example, the portion of a term endowment that must be maintained for a specified term is classified as net assets with donor restrictions due to time restrictions.	For example, a board-designated endowment, which results from an internal designation on net assets without donor restrictions, is not donor-restricted and is classified as net assets without donor restrictions.



# Net appreciation (net gains) of endowment funds

Unless gains are restricted by a donor's explicit stipulation or by a law that extends a donor's restriction to them, gains on investments of a donor-restricted endowment fund are changes in net assets without restrictions.

# Uniform prudent management of institutional funds act (UPMIFA)

- Under UPMIFA, a portion of a donor-restricted endowment fund will be classified as net assets with donor restrictions (perpetual).
  - The amount of the fund that must be retained in perpetuity in accordance with explicit donor stipulations
  - The amount of the fund that, in the absence of explicit donor stipulations, the NFP's governing board determines must be retained (preserved) in perpetuity consistent with the relevant law

# Losses of an endowment fund

In the absence of donor stipulations or law to the contrary, losses on the investments of a donor-restricted endowment fund shall reduce net assets with donor restrictions (time restricted) to the extent that time-restrictions on net appreciation of the fund have not been met before the loss occurs. Any remaining loss shall reduce net assets with donor restrictions (perpetual). Prior to ASU No. 2016-14, any remaining loss decreases net assets without donor restrictions.

# Financial statement presentation

- Gains and investment income that are limited to specific uses by donor-imposed restrictions may be reported as increases in net assets without restrictions if the restrictions are met in the same reporting period as the gains and income are recognized, provided that realized and unrealized losses on investments may be netted against realized and unrealized gains on a statement of activities.
- The policy should be disclosed in the accounting policies in the notes to the financial statements.



Thank you