

## **Bow Valley Non-Profits Speaker Series - Endowment Fund Development - Tuesday November 23, 2021 (noon)**

**Jolene Cashin, CPA, CA – Speaker Notes**

### **Accounting for Endowments**

#### **Overview**

- Endowment accounting can be complex
- My goal is to provide a broad overview of some of the accounting concepts as it relates to endowments
- The accounting and financial reporting can vary depending on the type of endowments received, the restrictions imposed by the donor, the organizations accounting policy for recognition of contributions, and whether the endowments are held by a third-party.

#### **Administration of Endowment Funds (internally vs. externally)**

- Internally administered through an investment account
  - Account should be with a trusted financial advisor at a financial institution
  - Investment policies and controls should be approved by the board
  - Consider separate accounts for different types of endowments so that investment income can be easily tracked and appropriately used according to the restrictions
  - Endowment funds held would be presented as restricted assets at their fair market value on the statement of financial position as at the year end date
- Externally administered by a third-party
  - Organizations may choose to have a foundation assist with the administering of the endowment funds (i.e. Banff Canmore Community Foundation, Calgary Foundation, Edmonton Community Foundation, etc.)
  - The endowment funds would be held by the Foundation in perpetuity for the organization. Authority for disbursement of funds and investment income rests with the Foundation.
  - Accumulated funds are generally not presented on the statement of financial position (balance sheet) but instead are disclosed in the financial statements
  - Benefits: Investment expertise, continuity beyond a board's term, protection

#### **Revenue Recognition for Contributions**

- There are 3 types of contributions NFP's may receive (1) endowment contributions (2) restricted contributions or (3) unrestricted contributions.
- Each type of contribution is accounted for differently and is recognized in accordance with the organization's policy either using the deferral method or restricted fund method.
- Endowment contributions are accounted for as follows:
  - Deferral method

- Since the funds are to be maintained permanently and are not available to be used for service delivery activities and expenses the endowment contributions are never recognized as revenue
- The contributions received by the organization are recognized as a direct increase to net assets in the year received
- The investment income earned on the endowments would be accounted for according to the nature of the restrictions imposed
- Restricted fund method
  - Endowment contributions are recognized as revenue of the endowment fund in the current period

### **Recognition of Investment Income earned on Endowments**

- Net investment income (interest, dividends, gains, losses, less brokerage fees) earned on the endowment funds would be accounted for according to the nature of the donor restrictions imposed
- Therefore, it is important to understand from the donor how the investment income is allowed to be used (i.e. operating expenses, certain programs, capital improvements, add to the principal).
- Net investment income that is not externally restricted would be recognized as revenue in the statement of operations
- The investment income earned from the endowments should be recorded on a regular basis

### **Financial statement disclosures required**

- Policy for accounting for endowment contributions
- Net investment income earned from endowments and how it was recognized
- When the endowment funds are held externally additional disclosures are required that would include: the name of the foundation holding the funds, the endowment funds contributed, distributions to the organization, and the fair market value of the endowment funds held.

### **Key need to know for Endowments:**

- Endowment funds are restricted and should not be treated as operating or contingency reserves – these funds cannot be spent - not even during a pandemic
- Endowments are a great way to provide a steady annual income stream to support the organization's community activities and ensure longevity of the organization.

### **Other**

- Annual Reporting requirements with respect to charities (T3010 Registered Charity Information return) and Non-profit organizations (T1044 Non-profit organization information return).