Endowment fund accounting follows the Missouri State Law. UPMIFA has been adopted in the state of Missouri and provides the detail guidelines on the prudent management of Endowment Funds.

958-205-45 Other Presentation Matters

General Note: The Other Presentation Matters Section provides guidance on other presentation matters not addressed in the Recognition, Initial Measurement, Subsequent Measurement, and Derecognition Sections. Other presentation matters may include items such as current or long-term balance sheet classification, cash flow presentation, earnings per share matters, and so forth. The FASB Codification also contains Presentation Topics, which provide guidance for general presentation and display items. See those Topics for general guidance.

General

45-1 This Subtopic specifies certain basic information to be reported in financial statements of **not-for-profit entities** (NFPs). The requirements generally are no more stringent than requirements for business entities. The degree of aggregation and order of presentation of items of assets and liabilities in statements of financial position or of items of revenues and expenses in statements of activities of NFPs, although not specified, generally should be similar to those required or permitted for business entities. Particular formats for a statement of financial position, a statement of activities, or a statement of cash flows, are neither prescribed nor prohibited in part because similar prescriptions and proscriptions do not exist for business entities.

45-2 The usefulness of information provided by financial statements of NFPs can be vastly improved if certain basic information is classified in comparable ways. All NFPs shall do all of the following:

a. Report assets and liabilities in reasonably homogeneous groups and sequence or classify them in ways that provide relevant information about their interrelationships, **liquidity**, and **financial flexibility**.

b. Classify and report net assets in three groups-permanently restricted, temporarily restricted, and unrestricted-based on the existence or absence of donor-imposed restrictions and the nature of those restrictions. Information about the nature and amount of restrictions imposed by donors on the use of contributed assets, including their potential effects on specific assets and on liabilities or classes of net assets, is helpful in assessing the financial flexibility of an NFP.

c. Aggregate items of revenues, expenses, gains, and losses into reasonably homogeneous groups and classify and report them as increases or decreases in permanently restricted, temporarily restricted, or **unrestricted net assets**.

d. Classify and report cash receipts and cash payments as resulting from investing, financing, or operating activities.

45-3 Reporting by fund groups is not a necessary part of external financial reporting; however, this Subtopic does not preclude providing disaggregated information by fund groups.

> Complete Set of Financial Statements

45-4 A complete set of financial statements of an NFP shall include a statement of financial position as of the end of the reporting period, a statement of activities and a statement of cash flows for the reporting period, and accompanying notes to financial statements. In addition, a **voluntary health and welfare entity** shall provide a statement of functional expenses.

45-5 A set of financial statements shall include, either in the body of financial statements or in the accompanying notes, that information required by generally accepted accounting principles (GAAP) that do not specifically exempt NFPs and required by applicable specialized accounting and reporting principles and practices.

> Statement of Functional Expenses

45-6 A statement of functional expenses is useful in associating expenses with service efforts and accomplishments of NFPs. Voluntary health and welfare entities shall report information about expenses by their functional classes, such as major classes of **program services** and **supporting activities**, as well as information about expenses by their natural classification, such as salaries, rent, electricity, interest expense, depreciation, awards and grants to others, and professional fees, in a matrix format in a separate financial statement-the statement of functional expenses. Pursuant to paragraph 958-720-45-16, other NFPs are encouraged but not required to provide information about expenses by their natural classification. To the extent that expenses are reported by other than their natural classification (such as salaries included in cost of goods sold or facility rental costs of special events reported as direct benefits to donors), they shall be reported by their natural classification if a statement of functional expenses is presented. For example, salaries, wages, and fringe benefits that are included as part of the cost of goods sold on the statement of activities shall be included with other salaries, wages, and fringe benefits in the statement of functional expenses. In addition, expenses that are netted against investment revenues shall be reported by their **functional classification** on the statement of functional expenses (if the NFP presents that statement).

> Comparative Financial Statements

45-7 The guidance provided by Section 205-10-45 encourages but does not require comparative financial statements.

45-8 NFPs sometimes present comparative information for a prior year or years only in total rather than by net asset class. Such summarized information may not include sufficient detail to constitute a presentation in conformity with GAAP. If the prior year's financial information is summarized and does not include the minimum information required by this Topic (for example, if the statement of activities does not present revenues, expenses, gains, and losses by net asset class), the nature of the prior-year information shall be described by the use of appropriate titles on the face of the financial statements and in a note to financial statements. The use of appropriate titles includes a phrase such as *with summarized financial information for the year ended June 30, 19PY*, following the title of the statement or column headings that indicate the summarized nature of the information. Labeling the prior-year summarized financial information for comparative purposes only without further disclosure in the notes to financial statements would not constitute the use of an appropriate title.

> Expirations of Donor-Imposed Restrictions

45-9 An NFP shall recognize the expiration of a **donor-imposed restriction** on a **contribution** in the period in which the restriction expires. A restriction expires when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. If two or more temporary restrictions are imposed on a contribution, the effect of the expiration of those restrictions shall be recognized in the period in which the last remaining restriction has expired.

45-10 For example, a gift of a **term endowment** that is to be invested for five years shall be recognized as **restricted support** (revenue or gain) in the period it is received. In Year 5, when that term endowment becomes unrestricted, a **reclassification** shall be reported to reflect the decrease in **temporarily restricted net assets** and the increase in unrestricted net assets. Thus, the related effects of that time-restricted gift shall be reported in the period of receipt as well as the period in which the nature of the restriction changes.

45-11 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. For example, an expense does not fulfill an existing donor restriction if that expense is incurred for a purpose that is directly attributable to and reimbursed by a sponsored exchange agreement or a conditional award from a government agency, private foundation, or others. Temporarily restricted net assets with time restrictions are not available to support expenses until the time restrictions have expired.

45-12 Time restrictions implied on gifts of long-lived assets pursuant to paragraph 958-605-45-6 expire as the economic benefits of the acquired assets are used up; that is, over their estimated useful lives. In the absence of donor stipulations specifying how long donated assets must be used or an NFP's policy of implying time restrictions, restrictions on long-lived assets, if any, or cash to acquire long-lived assets expire when the assets are placed in service.

> Reporting Endowment Funds

45-13 A donor's **stipulation** that requires a gift to be invested in perpetuity or for a specified term creates a **donor-restricted endowment fund**. Alternatively, an NFP'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.

45-14 When classifying an **endowment fund**, each source-original gift, gains and losses, and interest and dividends-must be evaluated separately. Each source is unrestricted unless its use is temporarily or permanently restricted by explicit donor stipulations or by law. Thus, an endowment fund that is created by a governing board from unrestricted net assets is classified as unrestricted because all three sources are free of donor restrictions. If an endowment fund is created by a donor, the donor may have placed different restrictions on each of the three sources. Generally, classification of the original gifts and the income earned by endowments is straightforward because usually donors explicitly state any time or purpose restrictions on those two sources. Determining how to classify gains on endowments may not be as easy because agreements with donors often are silent on how gains should be used and whether losses must be restored immediately from future gains, or not at all. See paragraphs 958-205-45-16 through 45-21.

>> Net Assets of an Endowment Fund

45-15 Pursuant to paragraph 958-210-45-1, an NFP shall report the net assets of an endowment fund in a statement of financial position within the three classes of net assets based on the existence or absence of donor-imposed restrictions:

a. **Permanently restricted net assets**. For example, 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.

b. Temporarily restricted net assets. For example, the portion of a term endowment that must be maintained for a specified term is classified as temporarily restricted net assets.

c. Unrestricted net assets. For example, a board-designated endowment, which results from an internal designation on unrestricted net assets, is not donor restricted and is classified as unrestricted net assets.

45-15A Paragraphs 958-205-45-16 through 45-31 provide guidance for classification of net assets of donor-restricted endowment funds. In addition, see paragraphs 958-205-45-28 through 45-32 for guidance on classification of donor-restricted endowment funds in states with law based on the Uniform Prudent Management of Institutional Funds Act of 2006 or paragraphs 958-205-45-33 through 45-36 in states with law based on trust law or the Uniform Management of Institutional Funds Act of 1972.

>> Net Appreciation (Net Gains) of Endowment Funds

45-16 Restricted net assets result only from a donor's stipulation that limits an NFP's use of net assets or from a law that extends the donor's stipulation to enhancements (including holding gains) and diminishments of those net assets.

45-17 Thus, unless gains and losses are temporarily or permanently restricted by a donor's explicit stipulation or by a law that extends a donor's restriction to them, gains and losses on investments of a donor-restricted endowment fund are changes in unrestricted net assets.

45-18 For example, if a donor stipulates that net gains be added to the principal of its gift until that endowed gift plus accumulated gains increases to a specified dollar level, the gains are permanently restricted. Similarly, if a donor states that a specific investment **security** must be held in perpetuity, the gains and losses on that security are subject to that same **permanent restriction** unless the donor specifies otherwise. However, if a donor allows the NFP to choose suitable investments, the gains are not permanently restricted unless the donor or the law requires that an amount be retained permanently. Instead, those gains are unrestricted if the investment income is unrestricted or are temporarily restricted if the investment income is temporarily restricted by the donor.

45-19 If net gains are available for use by the NFP, those gains are not permanently restricted and classifying those gains as permanently restricted would be misleading.

45-20 [Paragraph Not Used]

45-21 If the governing board determines that the relevant law requires the NFP to retain permanently some portion of gains on investment assets of endowment funds, that amount shall be reported as an increase in permanently restricted net assets.

45-21A If an NFP is subject to a law or regulation that its governing board interprets as requiring the maintenance of purchasing power for donor-restricted endowment funds, then the NFP shall periodically adjust the amount in permanently restricted net assets to reflect that interpretation. Under those circumstances, an NFP shall use the inflation (deflation) index (or indexes) that it deems most relevant for adjusting the permanently restricted net assets of the funds (for example, the Consumer Price Index or the Higher Education Price Index).

>> Losses of an Endowment Fund

45-22 In the absence of donor stipulations or law to the contrary, losses on the investments of a donor-restricted endowment fund shall reduce temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the fund have not been met before the loss occurs. Any remaining loss shall reduce unrestricted net assets.

45-23 The classification of losses on investments of an endowment fund created by a board designation of unrestricted funds is straightforward; the losses are classified as reductions in unrestricted net assets because all sources of that endowment fund-original amount, gains and losses, and interest and dividends-are free of donor restrictions.

45-24 If losses reduce the assets of a donor-restricted endowment fund below the level required by the donor stipulations or law, gains that restore the **fair value** of the assets of the endowment fund to the required level shall be classified as increases in unrestricted net assets.

45-25 See Example 2 (paragraph 958-205-55-22) for a four-year illustration showing the **contributions**, investment income, and investment gains and losses of a donor-restricted endowment fund.

45-26 See Note E of Example 1 (paragraph 958-205-55-21) for an encouraged disclosure about endowment funds and investment management.

45-27 See Example 1 (paragraph 958-320-55-4) for an illustration of a statement of activities and example notes for an NFP that separates investment return into operating and nonoperating amounts based on a spending-rate or **total return** policy for managing its endowment funds.

>>> Classification of Donor-Restricted Endowment Funds Subject to UPMIFA

45-28 An NFP that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (**UPMIFA**) shall classify a portion of a donor-restricted endowment fund of perpetual duration as permanently restricted net assets. The amount classified as permanently restricted shall be either:

a. The amount of the fund that must be retained permanently in accordance with explicit donor stipulations (see paragraphs 958-605-45-3 through 45-4)

b. The amount of the fund that, in the absence of explicit donor stipulations, the NFP's governing board determines must be retained (preserved) permanently consistent with the relevant law (see paragraph 958-205-45-21).

For implementation guidance on understanding legal requirements, see paragraph 958-205-55-1.

45-29 Consistent with the guidance in paragraphs 958-205-45-17 through 45-18 and paragraph 958-205-45-22, 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 NFP to hold in perpetuity. Likewise, the amount of permanently restricted net assets is not reduced by an NFP's appropriations from the fund.

45-30 For each donor-restricted endowment fund for which the restriction described in subsection 4(a) of the Uniform Prudent Management of Institutional Funds Act of 2006 applies (see paragraph 958-205-05-10), an NFP shall classify the portion of the fund that is not classified as permanently restricted net assets as temporarily restricted net assets (time restricted) until appropriated for expenditure by the NFP.

45-31 In the absence of interpretation of the phrase *appropriated for expenditure* in subsection 4(a) of the Uniform Prudent Management of Institutional Funds Act of 2006 (see paragraph 958-205-05-10) by legal or regulatory authorities (for example, court decisions or interpretations by state attorneys general), for purposes of the guidance in this Subtopic, appropriation for expenditure is deemed to occur upon approval for expenditure, unless approval is for a future period, in which case appropriation is deemed to occur when that period is reached. Approval for expenditure may occur through different means within and across NFPs. For example, expenditures could be approved as part of a formal, annual budget. Expenditures also could be approved during the year as unexpected needs arise (such as for emergency relief efforts). Upon appropriation for expenditure, the time restriction expires to the extent of the amount appropriated and, in the absence of any purpose restrictions, results in a reclassification of that amount to unrestricted net assets. If the fund is also subject to a purpose restriction, the reclassification of the appropriated amount to unrestricted net assets shall not occur until that purpose restriction also has been met, in accordance with the guidance beginning in paragraph 958-205-45-9.

>>>> Initial Application

45-32 In initially applying the guidance in this Subtopic to a donor-restricted endowment fund in existence when an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 is first effective:

a. The NFP shall report any resulting net asset reclassification in a separate line item within the NFP's statement of activities for that period, outside the performance indicator or other intermediate measure of operations, if one is presented.

b. Any amounts within a donor-restricted endowment fund that were previously considered available to meet a purpose restriction under the guidance in paragraph 958-205-45-11, but that have never been appropriated for expenditure, shall, like other unappropriated amounts in that fund, be considered unavailable until appropriated, and, therefore, the purpose restriction previously considered fulfilled shall be considered reinstated.

>> Classification of Donor-Restricted Endowment Funds Subject to Trust Law or to Uniform Management Institutional Funds Act of 1972

45-33 In states that have enacted a version of the Uniform Management of Institutional Funds Act of 1972 (**UMIFA**) or states whose relevant law is based on trust law, it is generally understood that at least the amount of the original gift(s) and any required accumulations is not expendable, although the value of the investments purchased may occasionally fall below that amount. Future appreciation of the investments generally restores the value to the required level. In states that have enacted its provisions, the Uniform Management of Institutional Funds Act of 1972 describes "historic dollar value" as the amount that is not expendable.

45-34 In the absence of a law or a donor's explicit or clear implicit permanent restriction, net appreciation shall be reported as unrestricted if the endowment's income is unrestricted or temporarily restricted if the endowment's income is temporarily restricted by the donor. Decisions about when to spend resources generally do not bear on the issue, which is whether the resources are available for spending. A restriction expires when an expense is incurred for the restricted purpose, regardless of whether an amount is appropriated.

45-35 Legal limitations may require the governing board to act to appropriate net appreciation for expenditure under a statutorily prescribed standard of ordinary business care and prudence. Reference to a standard of ordinary business care and prudence does not extend a donor-imposed restriction to the net appreciation on investments of a donor restricted endowment fund. A requirement to exercise ordinary business care and prudence is not a limitation that is more specific than the broad limits of the environment in which charitable and other NFPs operate. Thus, a legal limitation that requires that a governing board exercise ordinary business care and prudence when appropriating net appreciation is not the equivalent of a law that extends a donor-imposed restriction and, therefore, by itself, does not result in classification of net appreciation as donor-restricted, either permanently or temporarily.