

North American Division Edition

Endowment Funds Update

The 4th Quarter 2008 edition of Client Connection included an article on endowments. That article identified two important developments that will affect organizations that have endowments. The first development is the introduction and enactment by many states of a new law governing endowments. That law is known as the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The second development is the Financial Accounting Standards Board Staff Position 117-1 (Topic 958-205) regarding the accounting and reporting of endowments. That article is available on our website and is a great prerequisite to this article.

Complying with your state law regarding endowments and FSP 117-1 doesn't need to be confusing and complicated. Here are a few actions that can help your Organization to comply with state law and FSP 117-1:

- Review the existing state law pertaining to endowments. UPMIFA has been adopted by 43 states and under consideration in 4 states, as of October 9, 2009. For information on your state, visit www.upmifa.org. Consult with your legal counsel regarding how your state law will affect your endowments.
- Review the existing endowment funds. Determine if they are donor-restricted or board-designated (also known as quasi-endowments). Only donor-restricted endowments are subject to UPMIFA, but all endowments are subject to the accounting and reporting requirements of FSP 117-1.
- If your state has enacted UPMIFA, review your spending and investment policies to determine if they comply with the prudence standards. Your organization's governing committee should document its decisions regarding the applicable prudence factors regarding spending and investing.
- Determine the portion of each donor-restricted endowment fund that will be classified as permanently restricted net assets (FSP 117-1). That amount is either (a) the amount required to be permanently retained as stipulated by the donor, or (b) if the donor does not stipulate an amount, than the applicable state law will provide guidance.
- After reviewing state law and the endowment document, determine if a reclassification of net assets is required.
- Draft disclosure footnotes. Additional guidance can be found

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in the 4th Quarter 2008 Client Connection.

Under UPMIFA, governing committees are responsible for creating endowment spending and investment policies that would be considered a prudent course of action. UPMIFA does not provide straightforward guidance on spending and investment policies. It is vitally important for the governing committee to fully understand the donor intent of the endowments, applicable state law and FSP 117-1. Since state law is involved, we strongly encourage each organization to consult with their legal counsel when developing strategies to comply with donor restrictions, state law and FSP 117-1.

The following sample note disclosure illustrates the kinds of disclosures required by FSP 117-1. Note that this is only an illustration: each entity should be aware of its respective state's version of UMIFA or UPMIFA, and the state attorney general's interpretation of it, particularly for provisions about preservation of principal and spending policies.

Note 1 – Organization
Description and Summary of
Significant Accounting Policies

Summary of Significant
Accounting Policies (modifications
to the illustration from SDAAM
Appendix 17D.04)

Permanently Restricted Net Assets: The Organization records all donor-restricted perpetual

endowments as permanently restricted net assets. [Where applicable, add sentences such as the following: The Organization interprets state law to require it to record all other endowments, absent donor stipulations, as permanently restricted net assets. The Organization interprets state law to require it to add a portion of investment return to the permanent endowment to maintain its purchasing power. The Organization uses the Consumer Price Index to determine this portion. For the year(s) ended (date(s)), the Organization adds (amount(s)) from investment returns to permanently restricted net assets to maintain the purchasing power.]

Investment Strategy: For administration of endowment resources, the Organization has chosen an investment strategy which aims to balance the protection of principal with the generation of income to serve the purpose of the endowment. To accomplish that strategy, the Organization places the endowment assets into the following ranges of investment types: XX% to XX% in government-issued securities, XX% to XX% in other debt securities, and XX% to XX% in equity securities. [Where applicable, add the following sentence: Also to maintain that strategy, the Organization places these investments in denominational unitized funds and/or reputable mutual funds, but does not purchase securities directly from the issuers.]

Investment Income: Income on endowment fund investments is accounted for as temporarily restricted net assets at least until appropriate for the purpose designated by the endowment instrument.

Endowment spending policy: The Organization has adopted an endowment spending policy that directs it to budget the anticipated amount of endowment income for each period, to distribute actual income on a quarterly basis up to the budgeted amount to the beneficiaries or programs specified by the endowment agreement, and to adjust the budget for any period in which actual investment income is less than originally budgeted.

[Disclosure for endowments with deficiencies] From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or [State] Prudent Management of Institutional Funds Act requires the Organization to retain as a fund of perpetual duration. In accordance with accounting principles accepted by the Seventh-day Adventist denomination, deficiencies of this nature that are reported in unrestricted net assets were \$X,XXX as of Year #2. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions. There were no such deficiencies as of Year #1.

Year End Planning

If your organization has a year ending date of December 31, you will soon be involved in the end of year accounting process. Some simple planning procedures now will help to facilitate a smooth and successful completion to the accounting year. A good article on preparing for an audit can be found in a prior Client Connection. To view that article, click on the following link:

<http://www.gcasconnect.org/assets/files/newsletters/09-01.pdf>

Fair Value Update

An article in the 1st Quarter 2009 Client Connection described a new accounting standard dealing with the determination of fair values of assets and liabilities. To view that article, click on the following link:

<http://www.gcasconnect.org/assets/files/newsletters/10-01.pdf>

Standards of Financial Accounting Statement No. 157, Fair Value Measurement, became effective for fiscal years beginning after November 15, 2007.

As an update to our previous article, we want to provide additional samples of suggested wording for financial statement disclosures:

Note XX - Investments

	Cost	Fair Value	Unrealized Appreciation or (Decline)
Held for Operating Purposes:			
GC Unitized Income Fund	10,000	9,850	(150)
Union Revolving Fund Account Certificates	10,000	10,000	0
Held for Unexpended Plant:			
GC Unitized Bond Fund	5,000	5,095	95
[name] Government Bond Mutual Fund	5,000	5,015	15
Held for Split-interest Agreements:			
[name] Corporation Bond	2,500	2,535	35
[name] Government Bond Mutual Fund	5,000	5,015	15
Beneficial Interest from Another Trustee	5,000	4,990	(10)
Held for Endowment:			
GC Unitized Large Cap Equity Fund	6,500	5,915	(585)
[name] Equity Mutual Fund	3,500	3,285	(215)
Total Investments	52,500	51,700	(800)

The Organization is subject to accounting principles that require disclosure about the information used to determine fair values for assets and liabilities that are subject to fair value accounting on either a recurring or non-recurring basis. This information is separated into three “levels” of inputs, as follows:

Level 1: Observable quoted market prices in active markets for identical assets or liabilities

Level 2: Direct or indirect observable market data, such as quoted prices in inactive markets for identical assets or liabilities, quoted prices in active markets for similar assets or liabilities, and other observable market data correlated to identical or similar assets or liabilities

Level 3: Unobservable inputs and assumptions based on the best information available to the entity

The Organization used the following inputs to determine fair values of assets valued on a recurring basis.

	Level 1	Level 2	Level 3
Debt securities		27,510	
Equity securities	3,285	5,915	
Revolving Fund Account Certificates			10,000
Beneficial Interest from Another Trustee			4,990
Totals	<u>3,285</u>	<u>33,425</u>	<u>14,990</u>
For investments valued with Level 3 inputs:			
Beginning balance			13,500
Total gains or losses (net)			(10)
Total purchases and sales (net)			1,510
Transfers in or out of level 3 (net)			0
Ending balance			<u>15,000</u>
Net Gain (Loss) for assets still held at reporting date			<u>(10)</u>

The Organization used the following inputs to determine fair values of assets valued on a non-recurring basis.

	Level 1	Level 2	Level 3
Non-cash assets received during the period as contributions from donors via split-interest agreements			<u>200,000</u>
For these assets, fair value is estimated based on appraisals, if obtainable, or on published prices from vendors for similar items.			
Liabilities to other beneficiaries of split-interest agreements entered into during the period			<u>150,000</u>
For these liabilities, fair value is based on net present value calculations of expected cash flows.			

For an organization that has a simple investment portfolio made up of Union or GC unitized funds, the following sample footnote disclosure may be appropriate:

Note XX - Investments Unrealized

	Cost	Fair Value	Unrealized Appreciation or (Decline)
Held for Operating Purposes: GC Unitized Income Fund	400,000	379,850	(20,150)

The Organization is subject to accounting principles that require disclosure about the information used to determine fair values for assets and liabilities that are subject to fair value accounting on either a recurring or non-recurring basis. This information is separated into three “levels” of inputs, as follows:

- Level 1: Observable quoted market prices in active markets for identical assets or liabilities
- Level 2: Direct or indirect observable market data, such as quoted prices in inactive markets for identical assets or liabilities, quoted prices in active markets for similar assets or liabilities, and other observable market data correlated to identical or similar assets or liabilities
- Level 3: Unobservable inputs and assumptions based on the best information available to the entity

The Organization’s investment strategy limits its investments to only accounts available from the GC Unitized Funds. Based on information about how the Unitized Funds determine the per-unit value, the Organization has determined that fair value of its investments (\$379,850) is determined with reference to “Level 2” information.

Accounting Standards Codification

Accounting standards developed for United States of America entities has been the responsibility of the Financial Accounting Standards Board (FASB) since 1973. On June 30, 2009, FASB issued Statement No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles. Besides having a long title, FASB Statement No. 168 creates the Accounting Standards Codification (ASC) which becomes the new source for authoritative US accounting and reporting standards for nongovernmental entities.

FASB Statement No. 168 creates two levels of generally accepted

accounting principles. The first level is authoritative and is referred to as FASB ASC. The second level is non-authoritative and is not included in FASB ASC. FASB Statement No. 168 becomes effective for all denominational entities with years ending after September 15, 2009.

Some of you may have enjoyed the thrill of explaining various FASB Statements to your boards. Who wouldn’t enjoy rattling off lengthy sentences regarding FASB Statements No. 116, 117, 124 and 157? If you’re not familiar with those FASB Statements, don’t worry as they haven’t been replaced by FASB Statement No. 168. They merely have been

given a new FASB ASC reference. Such is the case with all FASB Statements and interpretations, AICPA accounting Statements of Positions, and so forth.

Change is not always greeted with overwhelming enthusiasm. FASB ASC creates significant change in order to simplify your ability to access all authoritative US GAAP. This will be accomplished by having the authoritative literature organized in a topical manner. There will be approximately 90 topics for which the accounting pronouncements will now be organized.

Another FASB ASC benefit is that it will allow for an easier

convergence of US accounting principles with international principles. There is currently a movement to bring about more accounting solidarity between the US and international standards.

FASB ASC will be accessible online for free. The free portion includes only the basic portion. However, that should be sufficient to help you with understanding the accounting principles.

Starting with fiscal years ending after September 15, 2009, organizations will need to include the new ASC reference numbers in their financial statement disclosures. For instance, the disclosures on fair value will now refer to Topic 820-10 rather than FAS No. 157. Disclosures on endowments will now refer to Topic 958-205 rather than FSP No. 117-1.

Your auditors will be glad to

assist you with information so that your financial statement disclosures are properly updated.

For additional information, please visit the following websites:

<http://asc.fasb.org/> - sign up for free service under the "new user" section

<http://cfodirect.pwc.com/CFODirectWeb/Controller.jpj?ruleCode=MSRA-7S85LF>

Contingency Plans - Influenza and Natural Disasters



Governmental health departments in the United States and Canada are recommending to businesses that they develop plans to cope with an outbreak of the H1N1 flu (also known as the swine flu). In a typical year, according to the US Department of Health and Human Services, approximately 5 to 20 percent of the US population will get the seasonal flu. There are fears that this year's flu season will be more dangerous because of the H1N1 virus. Denominational organizations need to be aware of this issue and its potential effect on their day to day operations.

More information can be found at the following websites:

<http://www.flu.gov/professional/business/smallbiz.html#04>

<http://www.fightflu.ca>

Does your organization have a contingency plan to continue operations in the event of an H1N1 outbreak?

Communication is a key element to minimize disruptions to your business operations should an outbreak occur. If a key member of management or accounting is

unable to work for several days or weeks, will this adversely affect operations? Organizations that have taken the time to develop employee procedure manuals as well as cross training employees will have a better time adapting to a shortage of key personnel.

Educating your employees can also minimize the possibility of an influenza outbreak. Encourage your employees to develop healthy habits such as utilizing proper hand washing techniques, using hand sanitizing lotions and staying home when ill so as to avoid putting the health of others at risk.

FACTOID

48%

Percentage of US employers that say stress caused by working long hours is affecting business performance

5%

Percentage of US employers who are addressing this concern.

Source: Watson Wyatt, www.watsonwyatt.com

Going GREEN

Has your organization caught the “going green” bug? Here are a few survey results that asked employees of American corporations questions about “going green.”



78% of US workers thought it was important to have an employer that was going green in a significant way.

Employees were asked why their employer went green:

- **24%** said it was to save money
- **22%** said it was to receive positive publicity
- **14%** said it was to be politically correct
- **17%** stated that social responsibility was the motivating factor
- **13%** said it was to reduce energy cost



Source: The Marline Company

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Please send any comments, questions, suggestions, or contributions (or articles, not money) to:

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This newsletter is intended to provide general information about a variety of topics. Before acting upon any information provided in this newsletter, we suggest that you study further and seek counsel to clarify your understanding before taking action. This is a complicated world, please be careful.