

Underwater Endowments

Many Bible Colleges and Seminaries who have substantial investment portfolios experienced significant losses or “devaluations” (generally unrealized) with respect to those investments in 2022.

Nobody wants to be described as “underwater” – especially on your financial statements. However, if you have an established endowment fund (either donor restricted or board designated) and your investments related to those endowment funds are less than the endowment fund amounts, you may have “underwater endowments.”

The AICPA Audit and Accounting Guide: Not-for-Profit Entities glossary defines it as...

Underwater endowment fund. A donor-restricted endowment fund for which the fair value of the fund at the reporting date is less than either the original gift amount or the amount required to be maintained by the donor or by law that extends donor restrictions.

From the FASB’s point of view, in general, endowment funds can be established by either donors or a governing board and must be reported in the statement of financial position based on the existence or lack of donor-imposed restrictions. A donor-restricted endowment fund results from a gift with a stipulation that those resources be invested either for a long, specified period of time or in perpetuity. Endowment funds with donor restrictions are referred to as donor-restricted endowment funds and will be reported on the statement of financial position within the net assets with donor restrictions.

Those without donor restrictions are referred to as board-designated endowment funds. A board-designated endowment fund is created when a governing board designates or earmarks a portion of its net assets without donor restrictions to be invested for a generally long, but not necessarily specified, period of time. Board-designated endowment funds will be reported on the statement of financial position within net assets without donor restrictions.

If you find your institution in this “underwater” position, your disclosure in the financial statements may look like:

The amount of the “underwater endowment” should be a subtraction line from the delineation of “Net assets with donor restrictions” (new with ASU 2016-14) and include a footnote – see example below from FASB.

Note C – Underwater Endowments

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 the

Uniform Prudent Management of Institutional Funds Act (UPMIFA) requires Troas Bible College to retain as a fund of perpetual duration. Deficiencies of this nature exist in 3 donor-restricted endowment funds, which together have an original gift value of \$3,500, a current fair value of \$3,300, and a deficiency of \$200 as of June 30, 2017. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new contributions for donor-restricted endowment funds and continued appropriation for certain programs that was deemed prudent by the Board of Trustees.

Troas Bible College has a policy that permits spending from underwater endowment funds depending on the degree to which the fund is underwater, unless otherwise precluded by donor intent or relevant laws and regulations. The governing board appropriated for expenditure \$75 from underwater endowment funds during the year, which represents 3 percent of the 12-quarter moving average, not the 5 percent it generally draws from its endowment.