



Business Advisors to Private Companies and Family Enterprises

Non-profits - UMIFA to UPMIFA – Are you ready?

If you are a member of a non-profit board, you may be aware of the Uniform Management of Institutional Funds Act (UMIFA) which provided guidelines regarding the management and spending of endowments funds, and the restrictions on those funds since 1972. In July 2006, the National Conference of Commissioners on Uniform State Laws (NCCUSL) approved the Uniform Prudent Management of Institutional Funds Act (UPMIFA) which is designed to replace UMIFA. Many states, including Maryland, Virginia, West Virginia and the District of Columbia have since enacted UPMIFA. Like UMIFA, the two basic principles held by the UPMIFA are, that assets are to be invested prudently in diversified instruments that seek growth as well as income, and that appreciation of assets can prudently be spent for the purposes of any endowment fund held by a charitable institution. The UPMIFA act also brings with it certain environmentally necessitated upgrades.

UPMIFA emphasizes a comprehensive view of donor restricted endowment funds. Conceptually, the original gift, appreciation, and earnings comprise the restricted endowment fund in perpetuity. The basic idea of the 'historical dollar value' of the donation is no longer the determinant of the amount that comprises the restricted net assets of the funds. This change in the components that comprise the restricted net assets requires the board to prudently consider the donor intent of the gift and the perpetuity of the fund. As such, there is a time restriction on net assets which have not been appropriated by the board for expenditure. Boards have been given more freedom to apply judgment and prudence regarding the donor intent of the gift to the preservation of the fund as weighed by the usefulness of expenditures to the mission of the organization. UPMIFA applies to endowment funds created both before and after its enactment.

The upgrade to UPMIFA resulted in changes to financial accounting standards. The presentation of retained earnings or net assets by classification has long been a disclosure requirement in accounting for endowments. UPMIFA has clarified that unless stated otherwise in the gift instrument, the assets in an endowment fund are donor-restricted until appropriated for expenditure by the institution. Presentation of the net assets on the balance sheet must reflect the time restricted component of the change.

Clarification regarding the application of losses on "underwater" funds has also been provided with regard to the time restricted net assets. Investment losses are to be applied first against temporarily restricted net assets to the extent that restrictions on net appreciation of the fund have not been met before the loss occurs and then to unrestricted net assets. The losses are not to be shown as decreases in permanently restricted net assets.

With the recent market changes and tumultuous activity, increased pressure is placed on all organizations to provide a clear picture of their investment assets. UPMIFA as well as financial accounting standards provide renewed emphasis on clarity and fair value measurement and presentation in recent years in response to the market environment. Clarity in reporting of endowment assets is of special importance to non-profits who must ensure that they are investing in accordance with their policies and in a prudent manner that considers risk and provides useful information to past and future donors. New accounting standards related to *Fair Value Measurements*, while not created specifically for non-profits or endowment accounting, provide guidance regarding the disclosure of the fair value of investment assets and the inputs utilized for value measurement. Three approaches are used for measuring fair value: the market, income and cost approaches. Inputs used for value measurement range from observable market inputs to unobservable inputs. The inputs and valuation techniques are used in combination to determine fair value and must be disclosed.

When considering endowment regulations and reporting requirements, it is important to know the relevant laws and statutes in your state as well as the most recent applicable accounting standards.

For more information on UPMIFA and updates in accounting for endowments, please contact Barbara K. Walker, CPA, Partner with McLean, Koehler, Sparks and Hammond, at barbw@mksh.com.