



Expansion: Endowments

Part V (Endowment Funds) of Schedule D (Supplemental Financial Statements) includes information on the filer’s endowments. As shown in Chapter 7, Part X (Balance Sheet) contains some information on endowments. Schedule D’s Part V provides additional information on endowments – information that was not elicited in Forms 990 before its expansion in 2008.

Part V of Schedule D:

Part V Endowment Funds. Complete if the organization answered “Yes” to Form 990, Part IV, line 10.	(a) Current year	(b) Prior year	(c) Two years back	(d) Three years back	(e) Four years back	
1a Beginning of year balance						
b Contributions						
c Net investment earnings, gains, and losses						
d Grants or scholarships						
e Other expenditures for facilities and programs						
f Administrative expenses						
g End of year balance						
2 Provide the estimated percentage of the year end balance held as:						
a Board designated or quasi-endowment ▶ _____ %						
b Permanent endowment ▶ _____ %						
c Term endowment ▶ _____ %						
3a Are there endowment funds not in the possession of the organization that are held and administered for the organization by:						
(i) unrelated organizations					Yes	No
(ii) related organizations					3a(i)	
b If “Yes” to 3a(ii), are the related organizations listed as required on Schedule R?					3a(ii)	
4 Describe in Part XIV the intended uses of the organization’s endowment funds.					3b	

Generally, endowments are funds set aside to generate income that will be used to support the filer. Schedule D reports on three types of endowments: (1) permanent endowments, (2) term endowments and (3) quasi-endowments or board-restricted endowments.

Permanent endowments – Permanent endowments are the funds that are set aside (the principal) to be held in perpetuity with the income generated from the principal being used to support the filer.¹

¹ Here is how the Instructions to Schedule D define the term permanent endowment: “Permanent (true) endowments are funds maintained to provide a permanent source of income, with the stipulation that principal must be invested and kept intact in perpetuity. While only the income generated can be used by the organization.” The Glossary to the Instructions defines the term this way: “Endowment funds that are

What constitutes income is a vexing and complicated question. For these purposes (and this goes for what will be said about term endowments below) income refers at least to the income generated by investing the principal, such as interest and dividend payments. It may also include the gains (realized or unrealized) on the principal's underlying investments. What income means depends, of course, on what the donor of the endowment specified in the gift instrument and it may also depend on state law. Where the gift instrument is silent on the subject, some states now allow boards to appropriate from an endowment fund whatever portion of the fund they deem prudent where for these purposes the duration and the goal of preservation of the endowment fund is a principal constituent of prudence. Permanent endowments can be established to provide the filer (in perpetuity) with general support or for some specific purpose, such as to help (in perpetuity) to provide financing for a scholarship. As noted in Chapter 7, permanent endowments are reported at Line 29 (permanently restricted net assets) of the Balance sheet at Part X of the core Form 990.

Generally a permanent endowment is a good thing. It may supply a steady source of income year after year. If the permanent endowment is large, it may generate a fair amount of income. You can ascertain the size of a permanent endowment by looking at the amount reported at Line 29(B) of Part X of the core Form 990.² There is no way of telling for what purposes the income from the permanent endowment is to be used, for example, whether the income is to be used for general support or to support a specific component of the filer's activities, such as a scholarship. Of course, if the income is to be used to support a specific component of the filer's activities, to the extent of that support, general support income need not be allocated to the component and is thus presumably available for general support.

Term endowments – Term endowments are funds that are set aside (the principal) to be held for a period of time (determined by the

maintained to provide a permanent source of income with the stipulation that the principal be invested and kept in tact in perpetuity while only the income generated can be used by the organization. See SFAS 117." Here is SFAS 117's definition: "Endowment funds generally are established by donor-restricted gifts and bequests to provide a permanent endowment, which is to provide a permanent source of income The principal of a permanent endowment must be maintained permanently – not used up, expended or otherwise exhausted – and is classified as permanently restricted net assets."

² You can also determine the size of a permanent endowment by multiplying the percent reported at Line 2b of Part V of Schedule D by the amount reported at Line 1g of Part V.

donor) with the income generated from the principal being used to support the filer.³ For example, a term endowment might involve a gift that provides that the endowment be maintained for the life of the donor with the income being spent to provide general support to the filer and that the principal revert to the filer as unrestricted assets on the donor's death. Or a term endowment might be a gift to an endowment stipulating that the income generated by the endowment be used to support a building project. Typically the gift will further stipulate that on the completion of the project the principal of the term endowment becomes available to the filer to be used in accordance with the gift's terms. Term endowments are reported at Line 28 (temporarily restricted net assets) at Part X of the core Form 990.

Quasi-endowments or board-designated endowments - Quasi-endowments or board-designated endowments are funds set aside in a special fund by the filer's board pursuant to a board resolution. They are like endowments since it is only the income they generate that can be spent. They are unlike permanent and term endowments as the board can for any reason end its restriction and remove any funds from the quasi-endowment at any time it chooses.⁴ There is no

³ Here is how the Instructions to Schedule D define the term term endowment: "Term endowments are endowment funds ... maintained to provide a source of income for either a specified period of time or until a specific event occurs." The Glossary to the Instructions defines the term this way: "An endowment fund ... maintained to provide a source of income for either a specified period of time or until a specified event occurs. See SFAS 117." Here is SFAS 117's definition: "Endowment funds generally are established by donor-restricted gifts and bequests to provide a ... term endowment, which is to provide income for a specified period. ... The principal of a term endowment must be maintained for a specified period and is classified as temporarily restricted net assets." It may be noted that the IRS definition is couched in terms of "either a specified period of time or until a specific event occurs." An example of the latter might be that the endowment be maintained to pay income to support visiting scholars until their work is done and they return home. It will be seen that although this latter stipulation is phrased in terms of the happening of a specified event (the scholars' work is finished), it is in fact for a specified period.

⁴ Here is how the Instructions to Schedule D define the term quasi-endowment: "Board-designated endowments, or quasi-endowments, are endowments established by the organization itself, either from unrestricted donor or organizational funds, over which the organization itself imposes restrictions on their use, and which restrictions can be temporary or permanent in nature. See SFAS 117 (ASC 958-205-45)." The Glossary to the Instructions defines the term quasi-endowment this way: "An endowment fund established by the organization itself, either from unrestricted donor or organizational funds, over which the organization itself imposes restrictions on their use, and which restrictions can be temporary or permanent in nature. These funds are sometimes referred to as board-designated endowments. See SFAS 117 (ASC 958-205-45)." Here is SFAS 117's definition: "An organization's governing board may earmark a portion of its unrestricted net assets as a board-designated

special line on Part X (Balance Sheet) of the core Form 990 for quasi- or board-designated endowments. They are reported at Line 27 (unrestricted net assets) at Part X of the core Form 990, included along with a lot of other funds, as unrestricted assets. The expanded Form 990 in Schedule D marks the first time information has been collected on board-restricted endowments.

The presence of a board-designated endowment may mean a couple of things. First, that the board concluded that the filer had sufficient revenues for operating purposes to justify setting aside some unrestricted assets in a board-designated fund. This may be taken to reflect positively on the filer's financial condition and on the prudence of the board. It might also mean that the board has set funds aside for a future project(s) or some special expenditure(s). It might be of interest to the reader to find out which of these alternatives is the case and, if the latter, what the project is. This would require contacting the filer.

In considering Part V of Schedule D, perhaps the first thing to determine is what kinds or types of endowments the filer has. This can be done by looking at Line 2 of Part V where the filer reports its estimate of the percentage (if any) of each kind of endowment. Thus, at Line 2a the filer reports the percentage of the balance of all endowments at the end of the year made up by board-designated or quasi-endowments and at Line 2b a similar percentage for permanent endowments and at Line 2c a similar percentage for term endowments. So this tells you what types of endowments the filer has. Line 1g reports the balance of all endowments at the end of the year, so by multiplying the percentage estimate at Line 2 of a particular type of endowment by the amount reported at Line 1g you can determine the size of that endowment. For example, if the filer reported \$500,000 at Line 1g and 80% at Line 2b, you could deduce that the filer held \$400,000 in permanent endowments at the end of year.⁵

It may be of interest to know whether the amount of an endowment has increased or decreased during the year. If you have access to the

endowment (sometimes called funds functioning as endowment or quasi-endowment) to be invested to provide income for a long but unspecified period. The principal of a board-designated endowment, which results from an internal designation, is not donor restricted and is classified as unrestricted net assets."

⁵ Presumably this would be the same or similar to the amount reported at Line 29(B) of Part X of the core Form 990. Line 29(B) of Part X reports the amount of permanently restricted net assets at hand at the end of the year.

filer's Form 990 for the year before the one you are examining, you can determine the estimates of the amount the filer had on hand at the end of the earlier year of the various kinds of endowments. To save space we will refer to the earlier year as Year 1 and the year of the year of the Form 990 you are examining as Year 2. (Before proceeding keep in mind that a filer may only have one kind of endowment and if so only one percentage will be listed.⁶) So by multiplying Lines 2 a, b and c (assuming the filer holds all three types of endowments) by the amount reported at Line 1g of Schedule D of the Filer's Year 1 Form 990, you derive the amounts held by the filer of each type of endowment at the end of Year 1 which will be the amounts held by the filer at the beginning of Year 2. And by comparing the amounts so determined with the similar amounts determined for Year 2,⁷ you can ascertain whether the amounts held by the endowments grew or diminished or remained constant. Of course, payments such as those to support the program for which the endowment was established may have been made during the year so the amount reported at Line 1g will be the net of additions to and subtractions from the endowments. This will become clearer below.

It may be that the filer will report a different number of kinds of endowments in the two separate years being examined. If, for example, Year 1 reported only two kinds of endowments and Year 2 reported three kinds, then you could conclude that the filer had added a new kind of endowment (the kind that was not reported on in Year 1) during the year (Year 2) being reported on.⁸

It should be kept in mind, however, that having determined that an endowment has increased or decreased during the course of the year does not tell you whether the increase (or decrease) has come about because of further contributions to (or withdrawals from) the

⁶ If it has two kinds of endowments, say permanent and term endowments, then two percentages will be reported at Lines 2b and c. And, of course, if the filer held all three kinds of endowments, amounts will be reported at Lines 2a, b, and c. Below we will show that it is possible to find out certain things when the filer reports only one kind of endowment that is not possible when it reports more than one.

⁷ As suggested this would be done by multiplying Lines 2a, b and c reported at Year 2's Part V by the amount reported at Line 1g of Year 2's Part V.

⁸ And there are a number of different permutations that work by the same logic. Thus, if Year 1 reported three different kinds of endowments and Year 2 reported two, you could conclude that one kind of endowment terminated during the year (the one for which no percentage is reported in Year 2). Or if Year 1 reported one kind of endowment and Year 2 reported two kinds of endowments, you could conclude that the filer added a new kind of endowment in Year 2 (the one for which a percentage is reported in Year 2 but not in Year 1). And so on.

endowment or from investment earnings or losses. This information can be derived from Part V in the case where only one type of endowment is reported. This may not be an unusual circumstance. We will explain why this cannot be done if more than one kind of endowment is reported, after we go through an example involving just one kind of endowment. If, for example, Part V shows that filer held only a board-designated or quasi-endowment at the end of the year (i.e., Line 2a reports 100%) and if Part V of the previous year's Part V also shows that the filer only held a board-designated endowment, then any contributions reported at Line 1b will necessarily have been to that endowment. By like token, if investment earnings (or losses) are reported at Line 1c, one may assume that those changes are attributable to the board-designated endowment.⁹ In the case where the filer reports more than one kind of endowment, this analysis cannot be made since there is no way of telling, for example, how much of the contribution amount reported at Line 1b is to be attributed to which of the two or three kinds of endowments. A similar analysis to that just made for the case where the filer holds only a board-designated endowment can be made if the filer holds just a permanent endowment or just a term endowment.¹⁰

It may be taken as a positive sign if contributions have been made to any of the filer's endowments. If a contribution has been made to a board-designated endowment, it suggests that the filer has available to it additional funds that can be set aside and this portends financial health. Contributions to a permanent endowment may also be taken as an encouraging sign, as is usually the case with contributions to a term endowment.

To close, we consider the spending side of the endowment equation. Line 1d of Part V reports the amounts spent from endowment income on scholarships or grants. As we are not considering the Forms 990 file by philanthropies – such entities usually file a Form 990 PF – it will presumably be scholarships that are reported at Line 1d, and this would more likely be the case if the filer were an educational institution. (In some cases, however, non-philanthropy 501(c)(3) nonprofits may make grants.) If the filer reports only one type of

⁹ It may be that a filer has more than one board-designated endowment. In such case, Part V would only provide information on the aggregate of such endowments. We believe, however, that it is very rare that a filer would have more than one board-designated endowment.

¹⁰ Unlike board-designated endowments, however, it may be that the filer holds more than one permanent or term endowment.

endowment at Part V, one may deduce that the payments reported at Line 1d were from that endowment.¹¹

Line 1e reports the amount spent from endowment income during the year on facilities and programs. It also reports the amount that a board has taken out (divested) of the principal from a board-designated endowment. In the case of permanent and term endowments this refers to the objects that the gift instrument that set up the endowments specified what the income should be used to support, e.g., the conduct of a particular program or the construction or support of a facility. In the case of a board-designated endowment the amount reported would either be the income from the endowment spent on the endowment's object or the amount of principal withdrawn (divested) by the board. If more than one kind of endowment is reported, there is no way of knowing how the amount reported at Line 1e should be allocated among the endowments. If only one endowment is reported, obviously the amount can be attributed to that endowment. In the case where only a board-designated endowment is reported, there is no way of knowing whether the amount reported relates to income expenditures or divestment of principal.¹²

¹¹ If the filer reported two or more kinds of endowments, say a term and a permanent endowment, there would be no way of telling whether the payments were made from one or more endowments and, if from more than one, how the amount reported at Line 1d should be allocated between the endowments.

¹² Line f reports administrative expenses charged to the income of endowments. This relates to such things as accounting and financial management expenses. In most cases the amount will be small or nothing will be reported. If the amount is large, perhaps it bears attention. Again, if more than one endowment is reported, there is no way of knowing how much of the reported expenses are to be attributed to which endowment.