Guidance for higher education institutions in implementing the provisions of the FEHE SORP 2019 in respect of donations and endowments

March 2019

This guidance has been issued by BUFDG to assist members in accounting for donations and endowments under the provisions of the FEHE SORP 2019. It attempts to explain and illustrate what is required by the SORP.

This guidance does not form part of the SORP, nor does it supersede any provisions of the SORP, to which preparers of financial statements should refer. The guidance does not carry the authority of the SORP, does not represent any additional or mandatory requirement, and has not been reviewed by the Financial Reporting Council. It is for members themselves to decide how to implement the SORP and agree any changes to accounting policies with their auditors.

Introduction

Background

Higher Education Institutions (HEIs) are required to prepare their accounts under the FEHE SORP 2019 which is based upon FRS 102.

The 2015 FEHE SORP introduced a number of material changes from the 2007 version, and in particular the requirements for accounting for donations and endowments changed significantly. Following the 2017 triennial review of FRS 102, no changes have been made to section 18 of the SORP which change the accounting treatment for donations and endowments.

This document aims to provide guidance for HEIs applying the SORP, but does not form part of the SORP or represent any additional requirement.

This document is written for HEIs but may also be relevant for other FE bodies.

The words “Institution” or “Institutions” are used in this document and are interchangeable with HEI and HEIs.

This document applies to non-exchange transactions in FRS102. It does not cover government grants but does cover accounting for donations and endowments. Reference should also be made to a previously issued BUFDG guidance document “FRS 102 and FE HE SORP: Revenue, Government grants and non-exchange transactions” which can be downloaded from the BUFDG website.

Contents

The guidance has been broken down into four sections as follows:

Recognition of donation and endowment income under the 2019 FEHE SORP - including performance-related conditions

Non-exchange transactions – donations and endowments

Donations and endowments form a subset of non-exchange transactions, dealt with in paragraphs (PBE) 34.64 to 34.74 of FRS 102 and section 18 of the SORP. Non-exchange transactions are defined as:

> *Transactions whereby an entity receives value from another entity without directly giving approximately equal value in exchange or gives value to another entity without directly receiving approximately equal value in exchange*

FRS 102 requires non-exchange transaction income to be recognised as follows;

- Transactions that do not impose specified future performance-related conditions on the recipient are recognised in income when the resources are received or receivable.
- Transactions that do impose specified future performance-related conditions on the recipient are recognised in income only when the performance-related conditions are met.
- Where resources are received before the revenue recognition criteria are satisfied, a liability is recognised.

As set out in paragraph 18.4 of the SORP, non-exchange transactions may be received with performance related conditions, with restrictions, with neither or with both. The most common classes of non-exchange transactions include:

- non-exchange transactions with performance-related conditions;
- donations with no restrictions;
- donations with restrictions; and
- endowments (endowments do not include performance-related conditions but they may have either permanent or temporary restrictions).

Performance-related conditions

FRS 102 defines a performance-related condition as;

> *A condition that requires the performance of a particular level of service or units of output to be delivered, with payment of, or entitlement to, the resources conditional on that performance.*

FRS 102 states (PBE34B.14) that in some cases "requirements are stated so broadly that they do not actually impose a performance-related condition on the recipient. In these cases the recipient will recognise income on receipt of the transfer of resources."

When identifying performance-related conditions, differentiation should be made between genuine performance conditions and those conditions that serve mainly as an administrative tool because failure to comply would not release the funder from their commitment. For instance the requirement to deliver an annual financial report to a funder is unlikely in itself be a performance-related condition. A mere restriction on the specific purpose for which funds are to be used does not in itself constitute a performance-related condition.

The SORP flags in paragraph 18.9 that *Donations with restrictions will typically include amounts raised through fund-raising programmes under which the general use of the funds is specified, for example to raise funds for science. However, if the donor requests a specific level of service or units of output (for example teaching hours), then a non-exchange transaction with performance-related conditions is likely to exist unless the intention of the grantor was for the institution to set up an endowment fund, in which case the fund should be accounted for as an endowment. It is expected that donations with performance-related conditions will be rare.*

The following represent examples of donations with performance-related conditions;

- Funding for a set number of scholarships in a named subject where the HEI is responsible for selecting suitable students and would be required to return the funding should they fail to fill the scholarships. The performance-related condition would be incurring expenditure on the scholarships and/or teaching of the students during the year.

Recognition of donation and endowment income under the 2019 FEHE SORP - including performance-related conditions

- A donation towards the costs of construction of a specific building, if entitlement to the donation is on completion of the building (performance-related condition).

In many instances there are a number of approaches to classifying performance-related conditions. Institutions should be pragmatic and adopt a consistent approach which is simple to implement.

Endowments do not have performance related conditions. Any conditions required by the donor are restrictions on the use of these funds.

Recognition timing

Subject to the satisfaction of any performance-related conditions, donations and endowments are recognised within income under donations and endowments in the Statement of Comprehensive income as soon as the institution is entitled to the income. Recognition may occur before receipt where entitlement has been established.

In the case of a legacy, following FRS 102 (PBE34B.5), income is recognised "when it is probable that the legacy will be received and its value can be measured reliably. These criteria will normally be met following probate (the legal process by which the validity of a will is established) once the executor(s) of the estate has established that there are sufficient assets in the estate, after settling liabilities, to pay the legacy."

The timing of cash receipts should not be the driver for income recognition. Entitlement to the income will be the driver of income recognition rather than the actual cash transaction.

Distinction between restrictions and performance-related conditions

Restrictions apply in many circumstances where a donor / grantor has requested a specific use of the funds which restricts the way in which the institutions may spend the funds.

Performance-related conditions include stipulations on the level of service or units of output to be delivered on which the funds must be utilised before entitlement to the fund passes. The donor / grantor may also include a restriction on the use of the funds.

Some examples of the treatment to be applied for different types of gift have been included in the table below. This table can be used or adapted to support decisions on accounting classification. Note that the characteristics relate to the charitable gift itself and the donor's instructions, not to the institution's decisions concerning the use of the charitable gift. Research is highly likely to have restrictions that meet the definition of performance conditions - *However, a performance-related condition may exist if the donor specified the specific time period over which the donation should be spent in a way that represents a performance-related condition over which the institution is entitled to the income. Such a specification should include the 'level of service' or 'unit of output' to be delivered over the time period.*

It should be noted that, as stated in the FEHE SORP paragraph 18.8 "An institution must consider its own circumstances to determine if funds are restricted or not". In the examples below where the term restricted is used it is assumed that it meets the definition of restricted as defined by the relevant institution. The definition of restricted is considered further within section 2.5 of this guidance document.

Characteristic		Classification	Recognition
1.	Charitable gift towards the cost of purchase or construction of a tangible asset other than land	Income with performance - related conditions (PRC)	Statement of comprehensive income (SOCI) (when PRC met). See example at Appendix 2
2.	Charitable gift towards the cost of purchase of land	Income with performance - related conditions	SOCI (when PRC met)

Donation and endowment classification under the 2019 FEHE SORP

The SORP requires separate disclosure in the statement of financial position of the balances on:

a) unrestricted reserves;

b) restricted reserves;

c) endowment reserves, separated (where material) in the notes into:

permanent endowments, defined in SORP paragraph 18.14 as arising “where the donor has stipulated that the capital element of the endowment fund must be held indefinitely”; and

expendable endowments.

Accordingly, it is important to determine for each gift receivable whether it is:

a) a permanent restricted endowment;

b) a permanent unrestricted endowment;

c) an expendable restricted endowment;

d) a restricted donation;

e) an unrestricted donation.

The flowchart on the next page sets out the key questions for HEIs to answer when determining the appropriate classification of gifted income, with the main criteria by which assessment is made being: has the donor specified that:

a) the gift must be maintained in perpetuity?

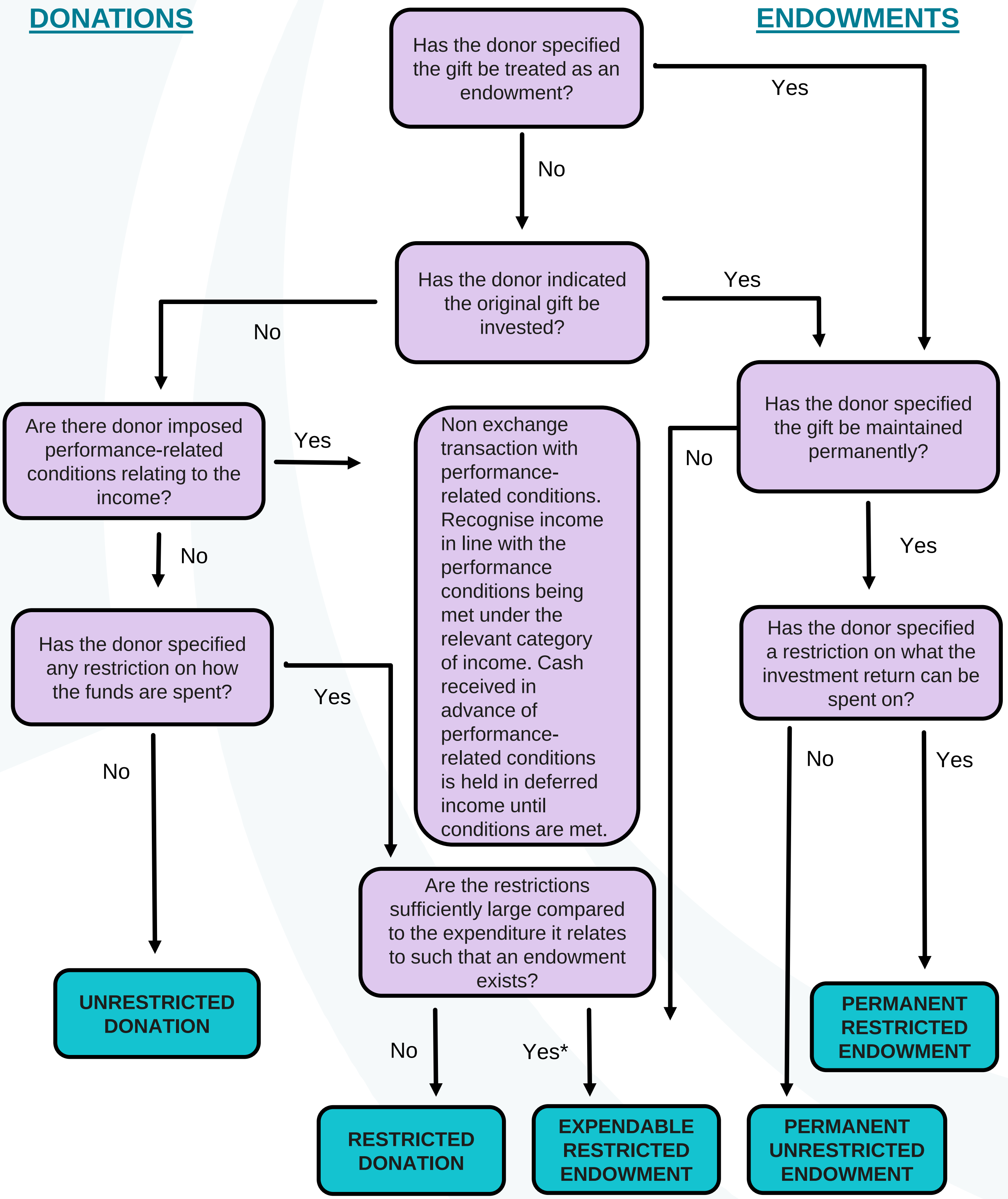
b) the original gift is to be invested?

c) the gift is to be spent on a restricted purpose?

Some examples of the treatment to be applied for different types of gift have been included in the table below. This table can be used or adapted to support decisions on accounting classification. Note that the characteristics relate to the charitable gift itself and the donor’s instructions, not to the institution’s decisions concerning the use of the charitable gift.

Characteristic		Classification	Recognition
1.	Charitable gift to be invested permanently to produce an income for the benefit of the institution or any specific purpose within the institution (subject to meeting the endowment definition)	Recognise original charitable gift in income in the SOCI and Permanent Endowment in reserves analysis	SOCI See example at Appendix 4
2.	Charitable gift to be retained for the benefit of the institution but where the terms enable the use of capital balances (subject to meeting the endowment definition)	Recognise in income in the SOCI and Expendable endowment in reserves analysis	SOCI
3.	Charitable gift for the general purposes of the institution – this would include such general terms as “teaching”, “research”, “education”, “facilities”.	Unrestricted donation	SOCI See example at Appendix 3.1
4.	Charitable gift for the general purposes of a specific department.	Unrestricted donation	SOCI
5.	Charitable gift for a broad area of research already committed or planned as part of a department’s existing operations	Unrestricted donation	SOCI
6.	Charitable gift for a specific purpose which can be fully expended on that purpose within two years of receipt	Restricted Donation	SOCI - See example at Appendix 3.2
7.	Charitable gift with a specific restriction where the donation is so large in relation to the spending on the purpose that it will need to be retained over a period exceeding two years.	Expendable endowment	SOCI

Donation and endowment classification under the 2019 FEHE SORP



* Retain in temporarily or permanently restricted endowment reserves until expenditure is incurred in line with the restrictions.

Donation and endowment classification under the 2019 FEHE SORP

Endowments v other restricted donations

The SORP defines an endowment fund as "a form of charitable trust retained for the benefit of the institution." The key word here is "retained" – this encompasses a range of restrictions implicit or inherent in the donor-specified terms of a donation. The Charities SORP definition may be a useful reference:

> *Endowment funds are resources received by the charity that represent capital. A feature of endowment funds is that charity law requires the trustees to invest it or to retain and use it for the charity's purposes. The term endowment applies to permanent endowment, where the trustees have no power to convert it into income and apply it, and to expendable endowment where the trustees do have this power.*

Restricted donations v unrestricted donations

FRS 102 defines a restriction as "a requirement that limits or directs the purposes for which a resource may be used that does not meet the definition of a performance-related condition."

The interpretation of a restriction can generally be considered to be a restriction in use which goes beyond being for the general use of the Institution or a school/department of the Institution. As an example the FEHE SORP gives the following for income recognition;

> A donation to carry out research in a particular research field is considered to be a donation with a restriction.
>
> An institution must consider its own circumstances to determine if the funds are restricted or not.

A donation may be regarded as being restricted if:

a) The donor specifies a particular purpose for which the funds are to be used and this is more specific than the funds being made available for the general (i.e. teaching and research objectives) use of the institution; or

b) The donation made is for a named member of staff or a sub-unit of a department as specified by the donor or

c) The donation is made, or is one element of a number of donations made, in response to a public appeal for donations to contribute towards a particular cause, other than the general purposes of the institution, and there is documentary evidence that such a public appeal has been made. (Unless, for example, the trustees have included a disclaimer to the effect that the appeal proceeds may be used for other purposes of the charity in the event that the appeal purposes cannot be fulfilled – in which case treat as unrestricted).

As stated above, it is for each institution to determine if the funds are restricted or not. For example, donations for cancer research, where the Institution already has a significant level of activity in this research field, could be deemed unrestricted. This is because they are a contribution to a general research activity of the Institution which it was undertaking regardless of the level of donations received.

As with "restricted", each Institution will have its own definition of what is a general activity and/or part of the Institution's strategy.

Where a donor's wishes are not initially set out in writing, they should be documented as soon as practicably possible (refer to Appendix 1 for guidance in situations where a donor's wishes are not documented).

A worked example of a restricted donation is shown in Appendix 3.

Financial statement disclosures for restricted donations

This section outlines the treatment of restricted donations in the primary statements

For statement of financial position reserves purposes, restricted donations must be split out and credited to restricted reserves, and the related spend charged against those restricted reserves, leaving a balance of unspent restricted funding in the reserves section of the statement of financial position. Unrestricted reserves are reflected in general reserves.

It is important to note that while restricted donations are a primary component of restricted reserves, there may be restricted reserves which derive from other forms of income. In particular, grants, including government grants, may be restricted in nature, in which case the income and expenditure should be disclosed as passing through restricted reserves.

The following need to be disclosed

- Brought forward reserves
- Additions
- Expenditure for the year
- Carried forward reserves

This can be achieved through a disclosure similar to this:

	As at 31 July 201X	New donations & grants	Capital spend	Restricted expenditure	As at 31 July 201Y
Academic projects	64.4	4.5	-	(4.3)	**64.6**
Capital projects	103.5	25.0	(56.5)	-	**72.0**
Academic posts	12.2	0.8	-	(0.3)	**12.7**
Scholarship funds	25.3	-	-	(1.2)	**24.1**
Support for museums	2.1	0.3	-	(0.4)	**2.0**
	207.5	**30.6**	**(56.5)**	**(6.2)**	**175.4**

The separate identification, and disclosure, of restricted reserves in the financial statements is, as with other aspects, subject to considerations of materiality. In some cases restricted reserves may be sufficiently material to warrant disclosure in the primary statements but not sufficiently material to require a supporting note showing all the movements and the nature of the restrictions.

Statement of comprehensive income

Income included in “new donations” is included in the statement of comprehensive income as part of the mandatory “donations and endowments” line. The note supporting the “donations and endowments” total will disclose the value of new restricted donations (and unrestricted donations separately).

The principle is that the reader should be able to cross-refer between these figures in the income note and the corresponding figures in the restricted reserves note.

Any investment income arising on unspent restricted funds is included in the statement of comprehensive income as part of the “investment income” total. Note that the investment income arising may not in fact be restricted – this will depend on the terms of the donation.

Expenditure funded by restricted reserves is part of the expenditure dealt with in the statement of comprehensive income but is not required to be shown separately except in the restricted reserves note.

At the foot of the statement of comprehensive income the extent to which the total comprehensive income for the year is attributable to, and retained in, restricted reserves is disclosed.

Financial statement disclosures for restricted donations

Statement of financial position

The balances on restricted reserves are included in the funds section of the statement of financial position (SOFP).

Other disclosures

The FEHE SORP also requires the following to be disclosed;

- The nature and amounts of donations received identifying those held as restricted reserves and those with no restrictions recognised in income within the year.
- Unfulfilled conditions attached to non-exchange transactions not recognised in income in categories that meaningfully support the reader of the financial statements, for example conditions that will be met through time, performance or milestones.
- An indication of other forms of donations from which the entity has directly benefited but the institution is unable to reliably quantify such as volunteer time.

Endowment accounting and financial statement disclosures

Paragraph 18.11 of the FEHE SORP explains that "an endowment fund is a form of charitable trust retained for the benefit of the institution". The distinguishing characteristic here is the retention of funds.

Permanent or expendable

Expendable endowment funds should be distinguished from permanent endowment funds in the reserves notes (SORP paragraph 18.17).

Expendable endowments permit the capital to be spent against objectives specified by the donor. These include funds where the donor specified that capital could be released at the discretion of the institution.

Expendable endowment funds may also exist where the funds donated with a specific restriction are so large in relation to the area of spend to which they relate that they will need to be retained over more than a short period of time. The SORP considers that a timeframe of under two years is unlikely to create an expendable endowment.

It is important to note that the classification of funds as endowments, and the subdivision into permanent and expendable endowments, depends on the restrictions placed on the gift by the donor. Decisions made by the institution as to how the gift is to be spent (within any restrictions placed on the gift by the donor) do not affect the status of the gift.

Frequently there will be documentation of donor restrictions or wishes. If any evidence of the donor's or the writer of the will's intention does exist, the Institution must treat the gift orlegacy accordingly.

In certain circumstances it is possible for the classification of an endowment to change some time after the original gift. Where trustees of a permanent endowment obtain consent from the donor or the Charity Commission (or other regulator, for example OSCR the Scottish Charity Regulator) to convert capital into income, (that part of) the endowment becomes an expendable endowment. The subdivision of the fund balance into capital and accumulated income is not affected.

Restricted or unrestricted

Permanent endowments are split between unrestricted and restricted endowments, depending on whether or not the donor has placed a restriction on the use of the income arising. Expendable endowments will always be restricted.

Capital or accumulated income

For both permanent and expendable endowments, the notes to the accounts should disclose separately the capital value of endowment funds and any accumulated income that has yet to be applied to the purposes of the endowment funds (SORP paragraph 18.11). The two segments together form a single endowment fund, managed in accordance with a donor's wishes. Once money from the fund is "applied" to relevant expenditure, it ceases to be part of the endowment fund.

Recurring basis: general principles

Accumulated income simply means income yet to be applied or spent. Some institutions may wish to refer to this as "retained income" or "unapplied income" to avoid confusion. This does not refer to the extent to which unspent income may have been converted into capital.

Each year the capital segment is rolled forward from the previous year's closing balance, and to this is added:

- any additional sums added to the endowment by the donor(s) on the same conditions;and
- the gain (or loss deducted) in the value of the investments held on behalf of the endowment.

The movements in the accumulated income account for a year are:

- investment income generated by the endowment fund's investments;
- expenditure incurred in accordance with the fund's purposes; and
- any other income generated in connection with the fund.

Endowment accounting and financial statement disclosures

In the case of an expendable endowment, expenditure incurred in accordance with the fund's purposes can be charged against the capital segment. Generally expenditure will be charged first against accumulated income to the extent of available balances before reducing capital.

Unrestricted endowments have no accumulated income segment, since all income arising in the year is utilised in the institution's general activities.

Capital will generally include the cumulative impact of revaluing the underlying investments over the period since the endowment was established, except to the extent that this is attributable to any invested accumulated income balances.

Endowment disclosures

As a minimum the FEHE SORP (section 18.17) requires the following be disclosed in notes:

- Brought forward reserves
- Additions
- Investment return (realised and unrealised capital gains – being the fair value movement on investments)
- Investment income (dividend and interest income)
- Expenditure for the year
- Carried forward reserves

The SORP requires that endowment reserves are split by materially similar types, which for endowments will be;

- Permanent Restricted Endowments
- Permanent Unrestricted Endowments
- Expendable Restricted Endowments

The following table provides a template for how endowment reserves notes should be structured (see also Appendix 5).

	Restricted permanent endowments £'000	**Unrestricted permanent endowments £'000**	**Expendable endowments £'000**	**201Y Total £'000**	**201X Total £'000**
Balances at 1 August 201X					
Capital	685	332	545	1,562	**371**
Accumulated income	24	-	35	59	**10**
	709	332	580	1,621	**381**
New endowments	748	530	550	1,828	**1,950**
Investment income	41	62	15	118	**80**
Expenditure	(35)	(62)	(180)	(277)	**(928)**
(Decrease) / increase in market value of investments	(46)	(41)	(25)	(112)	**138**
At 31 July 201Y	1,417	821	940	3,178	**1,621**
Represented by:					
Capital	1,387	821	910	3,118	**1,531**
Accumulated income	30	-	30	60	**90**
	1,417	821	940	3,178	**1,621**

This summary table may need an extra line added for exchange differences if an Institution has endowments denominated in foreign currencies.

The requirements for this table are, as with other disclosures, subject to materiality.

Statement of comprehensive income

Donations included in "new endowments" in the note above are included in the statement of comprehensive income as part of the mandatory "donations and endowments" line. The note supporting the "donations and endowments" total will disclose the value of new endowments.

The principle is that the reader should be able to cross-refer between these figures in the income note and the corresponding figures in the endowment note. Where individual new endowments are sufficiently material to warrant separate disclosure, this information can be included in either the income note or the endowments note.

Investment income arising on endowments is included in the statement of comprehensive income as part of the "investment income" total. The supporting note in the model financial statements may give separate lines for the income arising from endowments and from restricted reserves; the principle is that the reader should be able to cross-refer between these figures in the income note and the corresponding figures in the endowment note.

Expenditure funded by endowment funds is part of the expenditure dealt with in the statement of comprehensive income but is not required to be shown separately except as above in the endowments note.

The expenditure shown against unrestricted endowments should match the investment income for the year in respect of unrestricted endowments (see 5.17 above).

The endowments note may reflect transfers between different categories of endowment. Such transfers do not impact the statement of comprehensive income.

Capital appreciation or depreciation on endowments, whether realised or unrealised, will be included in the "gain (or loss) on investments" line of the statement of comprehensive income and thereby included in the reported surplus or deficit for the year. A supporting note disclosing the analysis of the total reported on this line into gains arising on endowments, restricted reserves and unrestricted reserves, may be appropriate.

At the foot of the statement of comprehensive income the extent to which the total comprehensive income for the year is attributable to, and retained in, endowment funds is disclosed.

Statement of changes in reserves

One column of the statement of changes in reserves reports the total of changes in endowment funds over the year. This is essentially a summary of the endowments note of which the table above is an illustration. In general all movements reflected in the endowments note will be included in a single line on the statement of changes in reserves, the analysis of the surplus or deficit for the year.

Statement of financial position

The balances on permanent and expendable endowments are included in the reserves section of the statement of financial position.

The assets relating to the endowments, be they cash, bonds, equities or investments, are recorded in the statement of financial position according to their nature, i.e. together with similar assets which are held other than for endowments.

Statement of cash flows

As stated above, in general all movements reflected in the endowments note will be included in the surplus or deficit for the year. As a result, the movements will all be included in operating cash flow except for those specifically deducted on the face of the statement of cash flows and included under other headings.

Other disclosures

The SORP requires as part of the endowment reserves note a disclosure of the assets which support the total funds balance and the value and type of any endowed assets (e.g. a building gifted to the HEI for charitable use). Below is an example of what the asset split could look like;

	31 July 201Y £'000	31 July 201X £'000
Cash and Cash Equivalents	453	352
Global equities	2,225	1,104
Bonds	49	34
Venture Capital	12	15
Property	124	116
Total	**2,863**	**1,621**

The FEHE SORP also requires the following to be disclosed for each material endowment (Section 18.18):

- its assets and liabilities
- its income and expenditure; and
- its nature and purpose including the restrictions on its use.

An indication should also be given as to whether or not sufficient resources are held in an appropriate form to enable the charitable fund to be applied in accordance with any restrictions.

The value and type of any endowed assets, for example endowed property must be disclosed. If a particular asset is an endowment and has a permanent restriction then it may be suitable to include the disclosure in the fixed asset note section of the Financial Statements.

Material transfers between different endowment funds should be disclosed separately and should be accompanied by an explanation of the nature of the transfers and the reasons for them.

In respect of assessing materiality for this purpose, a reasonable basis may be to disclose individual endowments that are in excess of 5% of the institution's net assets. This would ensure that major endowments are explained but that there is not too much detail; for many institutions no disclosure of this nature is likely to be required. The intention of the SORP is not to have pages of disclosure notes on individual endowment funds as the presentation of reams of detailed information is likely to detract from a reader's ability to assimilate the overall financial position.

Any permanent endowment fund where the accumulated income segment is in deficit is to be treated as material (see section 18.20) and so must be disclosed separately, and an explanation provided.

Section 18.21 of the SORP requires the same information as above (5.34 and 5.36) to be disclosed in aggregate for appropriate classes of non-material endowment funds. For example, prize funds rewarding excellence and bursary funds to support students in financial difficulty might be separate classes of endowment.

Appendix 1
Other guidance on Donations and Endowments

The SORP does not change institutions' obligations in respect of donations and endowments which derive from donor restrictions and trust law. In particular, the SORP does not change:

- the extent to which an institution is obliged to maintain the capital of a particular endowment
- the extent to which an institution is obliged to, or is empowered to, spend a particular fund over a specific period; or
- the extent to which an institution is obliged to, or is empowered to, invest a particular fund for the long term.

The Charity Commission's staff operational guidance (see OG 43 B2) draws attention to the general obligation, unless superseded in an individual case by specific terms, to spend funds not required to be held permanently as soon as practicably possible. Whenever possible, restricted funds should be spent first. This Increases financial flexibility and meets donor expectations that their funds are being used. Institutions should ensure, by establishing financial regulations and procedures, that this obligation is met in the order in which funds are applied to a particular activity. Restricted funds that are available for a specific activity should be applied first before any general departmental or institutional funds are applied.

In certain circumstances there will be transfers between the capital and accumulated income segments of an endowment fund which occur after the initial gift, perhaps several years later. This occurs where the trustees of an endowment (permanent or expendable) use their powers / discretion to convert accumulated income into capital. In some cases this will be required under the terms of the gift. Voluntary conversion of income to capital is likely to be rare, perhaps to deal with a form of investment where part of the investment income is in substance a measure of capital appreciation. The institution will need to ensure that such action is consistent with its powers and responsibilities and may need to take legal advice. Whatever the reason for the conversion, it should be reflected in an increase of capital and a reduction of accumulated income.

Where trustees of an expendable endowment use their discretion to convert capital to income there is no change in the accounting subdivision between accumulated income and capital – this is merely the exercise of a right, which was inherent in the original classification as expendable.

Where trustees of a permanent endowment obtain consent from the Charity Commission to convert capital into income, (that part of) the endowment becomes an expendable endowment. The subdivision of the fund balance into capital and accumulated income is not affected.

Periodic review of balances – This represents our view of best practice rather than a SORP requirement

An institution should periodically review older balances held on expendable endowments and accumulated income balances on permanent endowments to ensure they are being properly classified and utilised. It may be appropriate, for instance, to carry out an annual review of balances over five years old on all such funds.

A similar review is recommended in relation to funds categorised as restricted reserves.

The review should consider whether the balances held should not have been applied to expenditure incurred in previous periods on the basis of the obligation to spend these funds as quickly as reasonably possible.

Appendix 1
Other guidance on Donations and Endowments

Non-documentation of donor wishes

The Charity Commission's staff operational guidance (see OG 43 B4) gives guidance in situations where a donor's wishes are not documented. Adapting this to the classification of donations to an institution or a department:

a. Where the formal terms of a gift are silent as to how it should be treated, the first thing to consider is any informal indications of what the donor had in mind. For example, any indications

   I. expressed by the donor in correspondence with the trustees, or with their advisers, or with the donor's own advisers, or

   II. which may be recorded in interview or telephone memoranda or

   III. if the gift was in response to a public appeal, the terms of that appeal.

b. If there is no direct evidence as to what the donor had in mind, circumstantial evidence may be relevant. For example:

   I. The size of the gift in relation to the size of the department to which it was given - the larger the relative size of the gift, the more likely that the donor intended it to be treated as an endowment.

   II. The nature of the gift e.g. to establish an annual prize would also imply permanence.

   III. It might be reasonable to assume that the donor would not have expected a department necessarily to spend promptly a sum of money substantially greater than its normal outgoings; but would have expected the Institution to invest the gift as an expendable endowment and use the income, unless and until the trustees chose to embark on some major project on which the endowed funds could reasonably be spent.

c. The institution may need to take reasonable steps to contact the donor (or family of) if possible to clarify intentions if these cannot be determined. The institution may also in certain circumstances need to take legal advice as appropriate where it is not possible to identify the use and the trustees in effect do this.

d. It could be useful for an institution which regularly receives donations of various sizes to have a rule of thumb under which gifts below a certain value threshold are assumed to have been intended as income and gifts above this amount are assumed to have been intended as expendable endowment. The materiality figure should be selected on a rational basis in relation to the circumstances of the particular institution, and provided, of course, that proper regard is paid to explicit evidence of the donor's intention where such evidence does exist.

e. Where there is no evidence, either direct or circumstantial, as to the donor's intention, the gift should be included in income consistent with other unrestricted gifts.

Appendix 2
Worked example: Non-exchange transaction with performance conditions

An international food company which has a long collaborative history with the HEI decides it wants to fund named scholarships for students in Ice Cream Studies to study a year in Italy. The company signs a 3 year funding agreement with the HEI to pay the course fees at the Italian colleges for 5 students each year at £10k per year per student, a total of £150k over the course of the agreement with the funding being provided in full at the start. In the funding agreement

both parties acknowledge considerable uncertainty as to whether the HEI will be able to identify suitable students willing to travel to Italy to study Ice Cream; the HEI takes responsibility for selecting students to receive the scholarship and agrees that in the event that it fails to fill all scholarships for a given year the unused funds are to be returned to the funder.

In year 1 the HEI successfully fills all 5 scholarships, but in year 2 only fills 3 of them, and in the final year again successfully fills all 5 scholarships.

Accounting treatment

Because the HEI is required to fill the scholarships each year and would have to return the funds to the funder should they fail to fill them, it considers in its judgement that this is a grant with a performance-related condition, the condition being the successful filling of the scholarship.

Income should be recognised as each scholarship is filled, in practice the income can be recognised in line with the expenditure incurred in funding the scholarship as both will happen in the same year. As the meeting of performance conditions and the spending of the funds on the scholarships are aligned the income is recognised in unrestricted reserves.

Initially upon receipt the funds should be recognised as deferred income, which is released to income as the performance conditions are met. In the case of the 2nd year where two of the scholarships are not filled the deferred income liability will instead be cleared by a cash payment back to the funder.

This is not in reserves until meeting the performance condition triggers the release from deferred income. The reserve will be unrestricted.

<table>
<tr><td>Financial Year ended 31 July 20X1</td><td colspan="2">31 July 20X1</td></tr>
<tr><td rowspan="10">Upon initial receipt of the cash from the funder a deferred income liability is recognised;

Dr Cash £150k

Cr Deferred Income £150k

As in the 1st year all 5 scholarships are filled a total of £50k of expenditure on course fees is incurred;

Dr Unrestricted expenditure £50k

Cr Cash £50k

At the same time the expenditure on the course fees triggers income recognition;

Dr Deferred Income £50k

Cr Unrestricted income £50k

The net impact on reserves is £0 as income and expenditure are equal.</td><td colspan="2">Statement of comprehensive income</td></tr>
<tr><td>Unrestricted Income</td><td>£50k</td></tr>
<tr><td>Unrestricted expenditure</td><td>(£50k)</td></tr>
<tr><td>NET INCOME</td><td>£0</td></tr>
<tr><td colspan="2">Statement of financial position</td></tr>
<tr><td colspan="2">Current Assets</td></tr>
<tr><td>Cash</td><td>£100k</td></tr>
<tr><td colspan="2">Current Liabilities</td></tr>
<tr><td>Deferred Income</td><td>(£100k)</td></tr>
<tr><td>NET ASSETS</td><td>£0</td></tr>
</table>

Appendix 2
Worked example: Non-exchange transaction with performance conditions

Financial Year ended 31 July 20X2	31 July 20X2	
In the 2nd year only 3 of the scholarships are filled and only £30k of course fee expenditure is incurred;	Statement of comprehensive income	
Dr Unrestricted expenditure £30k	Unrestricted Income	£30k
Cr Cash £30k	Unrestricted expenditure	(£30k)
And equally £30k of income is recognised;	NET INCOME	£0
Dr Deferred Income £30k	Statement of financial position	
Cr Unrestricted Income £30k	Current Assets	
As per the terms of the agreement as two of the scholarships have not been filled £20k must be returned to the funder;	Cash	£50k
Dr Deferred Income £20k	Current Liabilities	
Cr Cash £20k	Deferred Income	(£50k)
The net impact on reserve continues to be £0	NET ASSETS	£0

Financial Year ended 31 July 20X3	31 July 20X3	
As for the 1st year all 5 scholarships are filled a total of £50k of expenditure on course fees is incurred;	Statement of comprehensive income	
Dr Unrestricted expenditure £50k	Unrestricted Income	£50k
Cr Cash £50k	Unrestricted expenditure	(£50k)
And the expenditure on the course fees triggers income recognition;	NET INCOME	£0
Dr Deferred Income £50k		
Cr Unrestricted Income £50k		
Again the net impact on reserves is £0.		

Appendix 3
Example donation accounting life-cycles under the 2019 SORP

Unrestricted donation

An alumnus of the HEI has decided to give a donation of £100k for the Institution to use as it sees fit to improve the student experience. The alumnus signs a legally binding gift agreement on 15th July 20X1 and pays the cash to the Institution on 20th August 20X1.

Accounting treatment

As the HEI has the right to use the funds as it sees fit to improve the student experience, the gift is not subject to performance conditions and must therefore be recognised in full when receivable.

As the gift is not restricted the funds should be recognised in unrestricted reserves.

<table>
<tr><th>Financial Year ended 31 July 20X1</th><th colspan="2">31 July 20X1</th></tr>
<tr><td rowspan="7">As a legally binding gift agreement has been signed prior to the year end the gift is receivable in FY 20X0/X1 and the income should be accrued for;

Dr Accrued Income £100k

Cr Unrestricted Income £100k

And recognised in unrestricted reserves.</td><td colspan="2">Statement of comprehensive income</td></tr>
<tr><td>Unrestricted income</td><td>£100k</td></tr>
<tr><td colspan="2">Statement of financial position</td></tr>
<tr><td colspan="2">Current Assets</td></tr>
<tr><td>Accrued Income</td><td>£100k</td></tr>
<tr><td colspan="2">Reserves</td></tr>
<tr><td>Unrestricted – I & E Reserve</td><td>(£100k)</td></tr>
</table>

<table>
<tr><th>Financial Year ended 31 July 20X2</th><th colspan="2">31 July 20X2</th></tr>
<tr><td rowspan="5">When the cash is received in August 20X1 the accrued income asset is cleared against it;

Dr Cash £100k

Cr Accrued Income £100k

There is no impact upon the income statement as the spending of the cash is treated as normal Institution expenditure.</td><td colspan="2">Statement of financial position</td></tr>
<tr><td colspan="2">Current Assets</td></tr>
<tr><td>Cash</td><td>£100k</td></tr>
<tr><td colspan="2">Reserves</td></tr>
<tr><td>Unrestricted – I & E Reserve</td><td>(£100k)</td></tr>
</table>

Restricted donation

A philanthropist with an interest in Penguinology has left £200k to the HEI's museum in his will for the promotion of penguin research (deemed to be restricted as this is assumed to be a sub-department) and considered restricted within the individual circumstances of this HEI). The will specifies that the funds are not to be spent on the acquisition of assets, but otherwise the museum and its curator have the freedom to spend the funds as they see fit.

The philanthropist's estate is in the hands of executors who have obtained probate in January 20X1 and paid over the legacy in two tranches, each of £100k on 1st August 20X1 and 1st August 20X2.

In 20X1/2 £20k of the funds were spent, in 20X2/3 the remaining £180k of the funds were spent on an exhibition.

Accounting treatment

The gift does not have a performance condition, but is restricted. The gift should be recognised in full once it is receivable. As the gift is restricted the funds should be initially recognised in restricted reserves. As the funds are spent on the exhibition running costs a transfer should be made from restricted to unrestricted reserves.

Appendix 3
Example donation accounting life-cycles under the 2019 SORP

Financial Year ended 31 July 20X1	31 July 20X1	
The legacy of £200k is receivable in FY 20X0/X1 and regardless of the fact the gift is being paid in 2 tranches should be recognised in full;	Statement of comprehensive income	
Dr Accrued Income £200k	Restricted Income donation	£200k
Cr Restricted Income £200k	Statement of financial position	
And recognised in restricted reserves.	Current Assets	
	Accrued Income	£200k
	Reserves	
	Restricted – I & E Reserve	(£200k)

Financial Year ended 31 July 20X2	31 July 20X2	
When the 1st tranche of cash is received in August 20X1 the accrued income asset is partially cleared against it;	Statement of comprehensive income	
Dr Cash £100k	Expenditure	(£20k)
Cr Accrued Income £100k	Statement of financial position	
As the first £20k of the funds are spent they are recognised in the income statement;	Current Assets	
Dr Restricted expenditure £20k	Cash	£80k
Cr Cash £20k	Accrued Income	£100k
And £20k is transferred from restricted to unrestricted reserves;	Reserves	
Dr Restricted – I&E Reserve £20k	Restricted – I & E Reserve	(£180k)
Cr Unrestricted – I&E Reserve £20k		
The net effect on the unrestricted reserves is £0 as the effect of the expenditure is recognised there as well.		

Financial Year ended 31 July 20X3	31 July 20X3	
When the 2nd tranche of cash is received in August 20X2 the remaining accrued income asset is cleared against it;	Statement of comprehensive income	
Dr Cash £100k	Expenditure	(£180k)
Cr Accrued Income £100k		
As the remaining £180k of funds is expended in the year it is recognised in the income statement;		
Dr Expenditure £180k		
Cr Cash £180k		
And the remaining £180k is transferred from restricted to unrestricted reserves;		
Dr Restricted – I&E Reserve £180k		
Cr Unrestricted – I&E Reserve £180k		
Leaving restricted reserves at £0 and as before unrestricted reserves nets to £0		

Appendix 4
Example endowment accounting life-cycle under the 2019 SORP

Permanent restricted endowment

The example presented below is a standard approach to endowment accounting and does not consider total return accounting which is only used by a limited number of Institutions. See Appendix 6 for outline information on the total return approach to investment management and accounting in respect of permanent endowments.

Financial Year 20X0/1

A former academic at the HEI who left to set up a successful company to exploit their research has, upon selling his company, decided to donate £1m of the proceeds to the HEI to establish a permanent endowment fund to fund research commercialisation costs in the field of Penguinolgy.

The terms of the gift agreement are that the £1m must be invested with the investment return available to spend on commercialisation costs.

Recognising the new endowment

The 2019 SORP requires that new endowments must be recognised in full as income once receivable, in this case the gift agreement has been signed and the cash received in the same year 20X0/1 and new endowment income can be recognised upon receipt of the gifted cash.

Dr Cash (statement of financial position)	£1m	
Cr New endowment income (statement of comprehensive income)		£1m

At the same time the endowment reserve needs to be recognised, whether an accounting entry is required here depends upon how the HEI's computing systems are set up. If the system can automatically flow endowment income to endowment reserves no entry is required, however if the system flows all income to unrestricted reserves the following posting will be required to recognise the endowment reserve.

Dr Retained earnings (statement of financial position)	£1m	
Cr Permanent Restricted Endowment Capital (statement of financial position)		£1m

Investing in the unitised fund

Upon receipt of the cash it is immediately invested in the endowment fund;

Dr Investment asset cost (statement of financial position)	£1m	
Cr Cash (statement of financial position)		£1m

Year Ended 31 July 20X1			
Statement of comprehensive income		**Statement of financial position**	
New endowment income	£1,000k	**Non-current Assets**	
NET INCOME	£1,000k	Non-current Investments	**£1,000k**
		NET ASSETS	**£1,000k**
		Reserves	
		Endowment Capital	**(£1,000k)**
		TOTAL RESERVES	**(£1,000k)**

Appendix 4
Example endowment accounting life-cycle under the 2019 SORP

Permanent Restricted Endowment Reserves Note			
	Capital	**Accumulated Income**	**TOTAL**
B/F Reserves	**-**	**-**	**-**
New endowments	£1,000k	-	£1,000k
Appreciation of endowment assets	-	-	-
Investment income	-	-	-
Expenditure from accumulated income	-	-	-
C/F Reserves	**£1,000k**	**-**	**£1,000k**

Financial Year 20X1/2

Over the course of the1st year the market value (MV) of the investment increases by 7% (£70k), and earns income of 2% (£20k).

As this is a permanent endowment only the investment income, (which in this case is the dividend stream and not the capital gain) is available to spend and is classified as Accumulated Income. The capital gains are accounted for as an increase in endowment capital (in line with the requirement that value of the original gift be maintained in perpetuity). During the year £15k is spent on commercialisation costs.

Recognising investment return

The SORP requires that all investment gains should be recognised as income as earned. Investment income, dividends and interest, should be recognised as 'Investment Income' and capital gains should be recognised as 'Gains/ (losses) on Investments'.

Dr Investment Asset MV Gains (statement of financial position)	£70k	
Cr Investment Gains/ (losses) (statement of comprehensive income)		£70k
Dr Cash (statement of financial position)	£20k	
Cr Investment Income (statement of comprehensive income)		£20k

At the same time an increase in endowment reserves needs to be recognised. As before, if systems are set up to allow apportioning of incomes between reserves no posting is required, otherwise the postings should be as follows;

Dr Unrestricted reserves (statement of financial position)	£90k	
Cr Permanent Restricted Endowment Capital (statement of financial position)		£70k
Cr Permanent Restricted Endowment Accum Income (statement of financial position)		£20k

Recognising spend of endowment income

During the year £15k of expenditure against the endowment has been incurred. This results in a transfer from endowment to unrestricted reserves.

Expenditure is recognised as for any normal expense;

Dr Commercialisation costs (statement of comprehensive income)	£15k	
Cr Cash (statement of financial position)		£15k

Triggering the requirement for a reserves transfer posting;

Dr Permanent Restricted Endowment Accum Income (statement of financial position)		£15k
Cr Unrestricted Reserves (statement of financial position)		£15k

Appendix 4
Example endowment accounting life-cycle under the 2019 SORP

Year Ended 31 July 20X1			
Statement of comprehensive income		Statement of financial position	
Investment Income	£20k	Non-current Assets	
Other Operating Expenses	(£15k)	Non-current Investments	£1,070k
SURPLUS BEFORE OTHER GAINS AND LOSSES	£5k		
		Current Assets	
		Cash	£5k
Investment Gains/(losses)	£70k	NET ASSETS	£1,075k
TOTAL COMPREHENSIVE INCOME	£75k		
		Reserves	
		Endowment Capital	(£1,000k)
		Endowment Accumulated Income	(£5k)
		TOTAL RESERVES	(£1,075k)

Appendix 5
Other examples

Ref	Title	Performance related condition?	Recognition under the Performance model	Investment income	Donations and endowments
1	Unrestricted donation	No	When entitled to the income		✓
2	Restricted Donation	No	When entitled to the income	(✓)	✓
3	Donations with restrictions	No	When entitled to the income		✓
4	Donation with performance related conditions	Yes	In line with level of service		✓
5	Restricted donation with service level and time requirement	Yes	In line with services provided		✓
6	Restricted expendable endowment	No	When entitled to the income		✓
7	Expendable Endowment	No	When entitled to the income	(✓)	✓
8	Restricted Permanent Endowment	No	When entitled to the income	(✓)	✓
9	Restricted Permanent Endowment	No	When entitled to the income	✓	✓

Appendix 5
Other examples

	Example 1 – unrestricted donation	Example 2 – Restricted Donation	Example 3 – Donation with restrictions
Background / Key terms and conditions	Funds raised in college's annual fundraising campaign.	Fund established in 2002, raised via appeals. Purpose: An appeal fund to support undergraduate and postgraduate students from around the world by providing scholarships. The objective is to enable the best students to take up a place regardless of their financial constraints.	The Institution receives £700,000 to fund activity over a 3 year period in the area of corrosion in aqueous environments, including upgrading lab facilities and curriculum development in taught programmes
Is this a revenue, government grant or non exchange transaction?	Non exchange transaction Donor was not a government body and receives no direct benefit in exchange for the donation	Non exchange transaction Donor was not a government body and receives no direct benefit in exchange for the donation	Non exchange transaction The donation is not from a government entity
What performance related conditions or restrictions exist?	There are no performance related conditions as there are no specifications of how the funds should be spent or specific time periods. Given the general nature of this kind of donation, it is not considered restricted.	This arrangement does not include performance related conditions as the Institution can choose when the money is spent. There are restrictions in the use of the fund.	There are no performance related conditions as there is no specific level of service that has to be delivered. The institution should consider whether the intention of the donor is to create an endowment. In this instance there is no requirement from the donor to create an endowment or to invest the funds. Therefore no endowment exists. There are restrictions on how the fund should be used.
What is the appropriate accounting and disclosure requirements for institutions adopting the performance model?	Recognise the donated income on entitlement in general reserves. Recognise expenditure as unrestricted expenditure as incurred. The income will be disclosed within donations and endowments.	Income should be recognised on entitlement as restricted income. As expenditure is incurred this should be recorded as restricted expenditure to reduce the restricted reserve. The income will be disclosed within donations and endowments.	Recognise the donation income on entitlement as restricted income. Retain the income in a restricted reserve. Recognise expenditure as restricted expenditure as incurred to reduce the restricted reserve to nil as the donation is utilised. The income will be disclosed within donations and endowments.
What is the appropriate accounting and disclosure requirements for institutions adopting the accrual model?	Accrual model not permitted for non-exchange transactions.	Accrual model not permitted for non-exchange transactions.	Accrual model not permitted for non-exchange transactions.
Other comments:	If the fundraising was for a specific programme the donations may be restricted.		

Appendix 5
Other examples

	Example 4 – Donation with performance related conditions	Example 5 – Restricted donation with service level and time requirements	Example 6 – Restricted expendable endowment
Background / Key terms and conditions	The Institution receives a donation to fund 2 three year studentships over a period of 3 years each.	Total amount £600k to be received in 5 annual instalments to provide funding for a professor of exceptional merit in researching carbon emissions over the 5 year period.	Funds received from legacy to be spent on studentships in specific area of biology. Funding may also be received from another source. The endowment is invested to the extent that it is not required to fund annual expenditure.
Is this a revenue, government grant or non exchange transaction?	Non exchange transaction. The donation is not from a government entity.	Non exchange transaction. Donor was not a government body and receives no direct benefit in exchange for the donation.	Non exchange transaction. Donor was not a government body and receives no direct benefit in exchange for the donation.
What performance related conditions or restrictions exist?	The donation includes specific requirements on what the funds should be spent on – i.e. the Institution is required to deliver teaching to the 2 students. This meets the definition of the level of service and therefore performance related conditions exist.	The institution should consider whether the intention of the donor is to create an endowment. In this instance there is no requirement from the donor to create an endowment or to invest the funds. Therefore no endowment exists. In this example the institution is required to pay for a professor to investigate carbon emission i.e. deliver a “level of service”, over time. The existence of a level of service meets the definition of performance related conditions.	There are no performance related conditions in the arrangement as the donor has not specified a “level of service” to be provided. The institution should consider whether the intention of the donor is to create an endowment. In this instance the donor's intention is for the Institution to set up an endowment. There are restrictions in what the funds should be used for as they are required to be spent on a specific area of biology.
What is the appropriate accounting and disclosure requirements for institutions adopting the performance model?	The income should be recognised in each of the years to which it relates. The income and expenditure incurred for each year is recorded within the income and expenditure as restricted income and expenditure in line with the level of service being provided. Since the income and expenditure will match for any given year the effect is that the surplus from restricted income and expenditure is nil (i.e. this is not specifically identified from the statement of comprehensive income). The income will be disclosed within donations and endowments.	The income should be recognised in each of the years to which it relates. The income and expenditure incurred for each year is recorded within the income and expenditure as restricted income and expenditure in line with the level of service being provided. Since the income and expenditure will match for any given year the effect is that the surplus from restricted income and expenditure is nil (i.e. this is not specifically identified from the statement of comprehensive income). The income will be disclosed within donations and endowments (potentially disclosed within research income if Frascati definitions met).	Recognise the endowment income on entitlement as restricted income. Retain the income in a restricted reserve. Recognise expenditure as restricted expenditure as incurred to reduce the restricted reserve to nil as the donation is utilised. The income will be disclosed within donations and endowments.
What is the appropriate accounting and disclosure requirements for institutions adopting the accrual model?	Accrual model not permitted for non-exchange transactions.	Accrual model not permitted for non-exchange transactions.	Accrual model not permitted for non-exchange transactions.

Appendix 5
Other examples

	Example 7 – Restricted expendable Endowment	Example 8 – Restricted Permanent Endowment	Example 9 – Restricted Permanent Endowment
Background / Key terms and conditions	An institution received a legacy in 1988. The use of the funds is restricted to research into Systemic Lupus Erythritis (SLE). The Dean has agreed that the long term use of the fund should be to support a lecturer post in Rheumatology, where most SLE research is currently based. About 90% of the fund is invested in the College investment portfolio.	Established in 1992 with the purpose of endowing a Professorship in Organic Chemistry for the support of teaching and research in the College. The College shall apply the income of the fund to the creation and maintenance of a Professorship of Organic Chemistry to be known as the "Glaxo Professorship of Organic Chemistry" and will provide facilities and support for the appointment in accordance with its customary practice.	Funds received from legacy to be invested and the income spent to fund lectureship to promote the Christian faith in the modern world.
Is this a revenue, government grant or non exchange transaction?	Non exchange transaction. Donor was not a government body and receives no direct benefit in exchange for the donation.	Non exchange transaction. Donor was not a government body and receives no direct benefit in exchange for the donation.	Non exchange transaction. Donor was not a government body and receives no direct benefit in exchange for the donation.
What performance related conditions or restrictions exist?	There are no performance related conditions in the arrangement as the donor has not specified a "level of service" to be provided. The institution should consider whether the intention of the donor is to create an endowment. In this instance the donor's intention is for the Institution to set up an endowment. This arrangement does not include performance related conditions as the Institution can choose when the money is spent. There are restrictions in the use of the fund.	There are no performance related conditions in the arrangement as the donor has not specified a "level of service" to be provided. The institution should consider whether the intention of the donor is to create an endowment. In this instance the donor's intention is for the Institution to set up an endowment. This arrangement does not include performance related conditions as the Institution can choose when the money is spent. There are restrictions in the use of the fund.	There are no performance related conditions in the arrangement as the donor has not specified a "level of service" to be provided. The institution should consider whether the intention of the donor is to create an endowment. In this instance the donor's intention is for the Institution to set up an endowment. There are restrictions in what the funds should be used as they are required to be spent on a specific area of Christian faith. In this example the permanent endowment demonstrates a permanent restriction.
What is the appropriate accounting and disclosure requirements for institutions adopting the performance model?	Income should be recognised on entitlement as restricted income. Investment returns should be recorded immediately and also held within the endowment reserve, following the host arrangement. As expenditure is incurred this should be recorded as restricted expenditure. Income and expenditure are reflected as movements on endowment funds. The income will be disclosed within donations and endowments	Income should be recognised on entitlement as restricted income going to the endowment reserve to reflect the permanent nature of the fund. Investment returns should be recorded immediately and also held within the endowment reserve, following the host arrangement. As expenditure is incurred this should be recorded as restricted expenditure to reduce the returns made on the endowment and is also charged against the endowment fund. The income will be disclosed within donations and endowments.	Recognise the endowed income on entitlement as restricted income. Retain the income in a permanently restricted reserve. The gain or loss on the value of any investments held by the fund should be recorded in the SOCI and retained as part of the capital element of the endowment fund. Recognise income from the investment as restricted – but hold within the permanently restricted reserve to follow the main endowment. Recognise expenditure as restricted expenditure as incurred to reduce the permanent reserve. The institution should retain the permanent capital fund over time in accordance with charity requirements and disclose any instances where the permanent fund has been eroded. The income will be disclosed within donations and endowments.

Appendix 6
Extracts from Model Financial Statements featuring donations and endowments

Primary statements

Consolidated and Institution Statement of Comprehensive Income:

Analysis of income

		Year ended 31 July 201Y		Year ended 31 July 201X	
		Consolidated	Institution	Consolidated	Institution
	Notes	£'000	£'000	£'000	£'000
Income Tuition fees and education contracts	1	56,040	56,040	51,600	51,600
Funding body grants	2	35,441	35,441	32,677	32,677
Research grants and contracts	3	31,000	31,000	28,337	28,337
Other income	4	56,609	51,335	42,872	38,112
Investment income	5	1,955	1,955	2,160	2,160
Donations and endowments	6	2,980	2,980	3,151	3,151
Total Income		**184,025**	**178,751**	**160,797**	**156,037**

Consolidated and Institution Statement of Financial Position:

Analysis of reserves showing endowment reserves and restricted reserves

		Year ended 31 July 201Y		Year ended 31 July 201X	
		Consolidated	Institution	Consolidated	Institution
	Notes	£'000	£'000	£'000	£'000
Restricted Reserves					
Income and expenditure reserve – endowment reserve	25	2,863	2,863	1,621	1,621
Income and expenditure reserve – restricted reserve	26	1,446	1,786	1,468	1,468
Unrestricted Reserves					
Income and expenditure reserve - unrestricted		121,782	120,676	100,001	98,551
Revaluation reserve		17,735	17,735	20,375	20,375
		143,826	143,060	123,465	122,015
Non-controlling interest		(54)	-	(12)	-
Total Reserves		**143,772**	**143,060**	**123,453**	**122,015**

Appendix 6
Extracts from Model Financial Statements featuring donations and endowments

Statement of Principal Accounting Policies

3. Income recognition

Grant funding

Grants (including research grants) from non-government sources are recognised in income when the Institution is entitled to the income and performance related conditions have been met. Income received in advance of performance related conditions being met is recognised as deferred income within creditors on the statement of financial position and released to income as the conditions are met.

Donations and endowments

Donations and endowments with donor imposed restrictions are recognised in income when the Institution is entitled to the funds. Income is retained within the restricted reserve until such time that it is utilised in line with such restrictions at which point the income is released to general reserves through a reserve transfer.

Donations with no restrictions are recognised in income when the Institution is entitled to the funds.

Investment income and appreciation of endowments is recorded in income in the year in which it arises. This is either restricted or unrestricted income according to the terms or other restriction applied to the individual endowment fund.

There are four main types of donations and endowments identified within reserves:

1. Restricted donations - the donor has specified that the donation must be used for a particular objective.
2. Unrestricted permanent endowments - the donor has specified that the fund is to be permanently invested to generate an income stream for the general benefit of the Institution.
3. Restricted expendable endowments - the donor has specified a particular objective other than the purchase or construction of property, plant and equipment, and the Institution has the power to use the capital.
4. Restricted permanent endowments - the donor has specified that the fund is to be permanently invested to generate an income stream to be applied to a particular objective.

Donations of tangible assets are included within income. The income recognised is valued using a reasonable estimate of their gross value or the amount actually realised. Donated tangible assets are valued and accounted for as tangible assets under the appropriate asset category.

21. Reserves

Reserves are classified as restricted or unrestricted. Restricted endowment reserves include balances which, through endowment to the Institution, are held as a permanently restricted fund which the Institution must hold in perpetuity.

Other restricted reserves include balances where the donor has designated a specific purpose and therefore the Institution is restricted in the use of these funds.

Notes to the accounts

			Year ended 31 July 201Y		Year ended 31 July 201X	
			Consolidated	Institution	Consolidated	Institution
		Notes	£'000	£'000	£'000	£'000
6.	Donations and endowments					
	New endowments	25	2,123	2,123	1,950	1,950
	Donations with restrictions	26	407	407	659	659
	Unrestricted donations		450	450	542	542
			2,980	**2,980**	**3,151**	**3,151**

Appendix 6
Extracts from Model Financial Statements featuring donations and endowments

25. Endowment Funds

	Restricted permanent endowments £'000	Unrestricted permanent endowments £'000	Expendable endowments £'000	201Y Total £'000	201X Total £'000
Balances at 1 August 201X					
Capital	685	332	545	1,562	371
Accumulated income	24	-	35	59	10
	709	332	580	1,621	381
New donations and endowments	410	468	1,245	2,123	1,950
Investment income	41		77	118	80
Expenditure	(12)	-	(875)	(887)	(928)
	29	-	(798)	(769)	(848)
(Decrease) / increase in market value of investments	(46)	(41)	(25)	(112)	138
At 31 July 201Y	1,102	759	1,002	2,863	1,621
Represented by:					
Capital	1,049	759	972	2,780	1,531
Accumulated income	53	-	30	83	90
	1,102	759	1,002	2,863	1,621
Analysis by type of purpose:					
Lectureships	635	759	505	1,899	683
Scholarships and bursaries	-	62	435	497	320
Research support	-	-	-	-	-
Prize funds	368	-	-	368	286
General	99	-	-	99	332
	1,102	759	1,002	2,863	1,621
Analysis by asset:					
Property (included within property, plant and equipment)				253	253
Investments				2,292	1,212
Cash				318	156
				2,863	1,621

Deficit balances

Income has been received to cover these deficits, which in both cases is expected to be before 31 July 201Z.

Balances at 31 July 201Y:	Capital £	Income £
Ignoble Prize Fund	535	(23)
ABC College Arboriculture Fund	282	(59)
	817	**(82)**

The Institution has the following material endowments:

a) XYZ fund - Information on the nature and purpose of the fund, the restrictions on its use, its assets and liabilities, income and expenditure, and whether sufficient resources are held to apply the fund in accordance with its restrictions.

During the year £XXX was transferred from [fund name] to [fund name] to [give reasons].

Appendix 6
Extracts from Model Financial Statements featuring donations and endowments

Restricted Reserves

Reserves with restrictions are as follows:

Consolidated and Institution	**Unspent capital grants**	**Donations**	**201Y Total**	**201X Total**
	£'000	**£'000**	**£'000**	**£'000**
Balances at 1 August 201X	780	688	1,468	839
New grants	200	-	200	-
New donations	-	407	407	659
Investment income	-	66	66	195
Capital grants unutilized	(340)	-	(340)	-
Expenditure	-	(355)	(355)	(225)
(Decrease)/increase in market value of investments	-	-	-	-
Total restricted comprehensive income for the year	(140)	118	(22)	629
At 31 July 201Y	640	806	1446	1,468

Analysis of other restricted funds/donations by type of purpose:	**201Y Total**	**201X Total**
	£'000	**£'000**
Lectureships	-	-
Scholarships and bursaries	-	-
Research support	618	491
Prize funds	65	79
General	123	118
	806	688

Appendix 7
Total return endowment investment management and accounting

Total return accounting applies only to charities established in England and Wales.

Charities applying total return investment management are required to adhere to the regulations set by the Charity Commission;

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/354811/20131025-the-charities-total-return-regulations-2013.pdf

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/767337/Charities__Total_Return___Amendment__Regulations_2018.pdf

Standard permanent endowment management and accounting specifies that only investment income and not capital gains may be expended upon the restricted purpose, reflecting the requirement under charity law that the value of the original gift be maintained in perpetuity and thus the charitable benefit preserved.

The principle behind the total return approach to investment management is that permanent endowment charities with varied investment portfolios can spend investment gains regardless of how they've accrued (investment income or capital gains) through appropriate use of cash and cash equivalent assets and treasury management.

The aim of the approach is to smooth the effect of short-term fluctuations in dividend and interest returns in periods of high capital gains (thus over-providing for future benefits at the expense of current) on the expectation that these gains will be realised into cash dividends in future.

To ensure that charities maintain the benefit of the original gift in real terms in perpetuity they should make apportionments out of unapplied returns into capital at appropriate intervals.

Adoption of total return investment management

Detailed guidance on applying total return investment management has been issued by the Charity Commission and can be found at the below location;

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/353957/Total_return_investment_for_permanently_endowed_charities.pdf

IT IS RECOMMENDED THAT HEIs READ THE CHARITY COMMISSION GUIDANCE PRIOR TO COMMENCING ON THE PROCESS OF ADOPTING TOTAL RETURN INVESTMENT MANAGEMENT

To adopt total return investment management for permanent endowments charities are required to have its trustees pass a resolution under Section 104A(2) of the Charities Act 2011, as amended by the Trust (Capital and Income) Act 2013, to apply total return accounting.

If an HEI is considering adopting total return it should refer to both the Charity Commission guidance and Regulations. It is highly recommended that its trustees take appropriate legal and accountancy advice.

Detailed accounting guidance on Total Return accounting is not provided in this document. Institutions considering adopting total return accounting can contact other Institutions who have adopted this who may be happy to provide details of the accounting, approach and any issues they faced in its adoption.