

Guidance for higher education institutions in implementing the provisions of the FEHE SORP 2015 in respect of donations and endowments

This guidance has been issued by BUFDG to assist members in implementing the relevant changes in the preparation of financial statements. 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.



Background

From the financial year 2015/16 Higher Education Institutions (HEIs) regulated by the HEFCE, SFC, HEFCW and DELNI are required to prepare their accounts under the 2015 FEHE SORP which is based upon FRS 102, the new financial reporting standard for the United Kingdom.

The 2015 FEHE SORP introduces a number of material changes from the 2007 version, and in particular the requirements for accounting for donations and endowments have changed significantly. There will be an impact on published income and surplus / deficit figures for those entities with significant donations and endowments. Some reclassification of fund balances / charitable gifts between endowments, restricted and unrestricted reserves is also likely to be necessary.

This document aims to provide guidance for HEIs applying the new SORP, but does not form part of the SORP or represent any additional requirement. It is recommended that attention be given to the relevant provisions of the SORP and to the following guidance at an early date to aid the transition to the new HE SORP.

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

The words "University" or "Universities" are used in this document and are interchangeable with HEI and HEIs.

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 www.fehesorp.ac.uk/resources. As indicated by the name, the earlier guidance is wider in scope than the present guidance; importantly, it sets out practical interpretations and includes illustrative examples, some of which are donations or endowments. However where there may be differences in interpretation, this guidance supersedes the previous guidance.

This document applies to non-exchange transactions in FRS102. It does not cover government grants but does cover accounting for donations and endowments.

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1. Key changes between the 2007 and 2015 FEHE SORPs in respect of donations and endowments

In respect of donations and endowments, the key changes arising on the implementation of FRS 102 are as follows:

1.1 New endowments are now included in total income in the statement of comprehensive income

FRS 102 has introduced the statement of comprehensive income (SOCl) as the primary statement dealing with all income and expenditure. All inflowing resources, including gifts by way of donation or endowment, are recognised in the SOCl subject to performance conditions being met (see 1.2). This is a significant change from the 2007 FEHE SORP, under which donations were recognised in the income and expenditure account as part of total income, whereas new endowments were recognised in the statement of recognised gains and losses (STRGL).

Other comprehensive income, also reported in the SOCl, includes gains and losses on investments, including on those held for endowments. These gains and losses were also previously reported in the STRGL.

The reserve accounting does not change except "endowment funds" are now renamed "endowment reserves".

1.2 Income recognition needs to take into account performance-related conditions

FRS 102 has introduced a series of new accounting requirements specifically for Public Benefit Entities (PBEs) including the concept of non-exchange transactions. All donations and endowments are non-exchange transactions. 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.

FRS 102 defines a performance-related condition as;

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

Refer to Section 2 of this paper for more detailed guidance on identifying performance-related conditions in relation to donations and endowments. It should be noted that endowments do not have performance-related conditions and that the instances of performance-related conditions in donations will be rare, as flagged by the SORP.

1.3 There is a new category of reserves - restricted reserves

The 2015 FEHE SORP introduces a new sub-classification of reserves – restricted reserves. While other forms of income may be also credited here, restricted reserves will certainly include the unspent balances of restricted donations.

Further details on this are given in Section 3 of this paper.

1.4 Donations for the purchase or construction of depreciable tangible fixed assets are no longer credited to deferred capital grants in the funds section of the balance sheet

The FEHE-specific treatment of capital grants set out in the 2007 FEHE SORP no longer applies. Donations for capital purposes are now recognised in the SOCl on entitlement (i.e. subject to any performance-related conditions that apply and the accounting choices made for government grants under FRS102). This guidance does not deal in any depth with the specific aspects of donations for capital purposes.

1.5 Expendable endowment definition

Under the 2007 SORP, many restricted donations, particularly those which were unlikely to be spent within a period of two years or so, were classified as expendable endowments. This is not the case in the 2015 SORP.

The reclassification of expendable endowments to restricted or unrestricted reserves (dependent on the definition of restriction adopted by each institution – see section 3.5) would be part of an institution's balance sheet transition. In those rare instances of donations with performance-related conditions, then the reclassification would be to a deferred donations creditor.

1.6 Endowment assets are no longer shown separately on the balance sheet

Under the 2007 FEHE SORP, the investments and other assets held on behalf of endowment funds were stated separately on the balance sheet as "endowment assets" (below total fixed assets). In the 2015 FEHE SORP the mandatory balance sheet layout includes non-current asset investments and current asset investments, each of which may include elements held on behalf of endowment funds. The required disclosures in respect of endowments (see Section 5) include a note analysing the nature of assets held for endowment funds.

Some of the above changes are reflected in the table overleaf showing the treatment of different types of gift under the 2007 and 2015 FEHE SORPs. This table can be used or adapted to support decisions on accounting classification by reading from the top down. 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.

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 in the context of the 2015 FEHE SORP 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 3.5 of this guidance document.

Characteristic		2007 SORP		2015 SORP	
		Classification	Recognition	Classification	Recognition
1.	Charitable gift towards the cost of purchase or construction of a tangible fixed asset other than land	Deferred capital grant	Balance Sheet	Income with performance-related conditions (PRC)	SOCI (when PRC met) See example at Appendix 2
2.	Charitable gift towards the cost of purchase of land	Income (see SORP 153)	Income & Expenditure Account	Income with performance-related conditions	SOCI (when PRC met)
3.	Charitable gift to be invested permanently to produce an income for the benefit of the institution or any specific purpose within the institution (2007 SORP - subject to meeting the period of retention. 2015 SORP - subject to meeting the endowment definition)	Permanent endowment	STRGL	Recognise original charitable gift in income in the SOCI and Permanent Endowment in reserves analysis	SOCI See example at Appendix 4
4.	Charitable gift to be retained for the benefit of the institution but where the terms enable the use of capital balances.	Expendable endowment	STRGL	Recognise in income in the SOCI and Expendable endowment in reserves analysis	SOCI
5.	Charitable gift for the general purposes of the institution – this would include such general terms as “teaching”, “research”, “education”, “facilities”.	Unrestricted income	Income & Expenditure Account	Unrestricted donation	SOCI See example at Appendix 3.1
6.	Charitable gift for the general purposes of a specific department.	Unrestricted income	Income & Expenditure Account	Unrestricted donation	SOCI
7.	Charitable gift for a specific purpose already committed or planned as part of a department’s existing operations	Unrestricted income	Income & Expenditure Account	Unrestricted donation	SOCI
8.	Charitable gift for a specific purpose which can be fully expended on that purpose within two years of receipt	Income (could be deferred)	Income & Expenditure Account or Balance Sheet (creditor)	Restricted Donation	SOCI See example at Appendix 3.2
9.	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	STRGL	Restricted Donation	SOCI

2. Recognition of donation and endowment income under the 2015 FEHE SORP - including performance-related conditions

2.1 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

2.2 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.

Performance-related conditions

2.3 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.

2.4 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.”

2.5 In some cases, however, donations may be received subject to performance-related conditions. This is different from a contractual or commercial arrangement to provide goods or services to a customer in return for payment of an equivalent value – such arrangements are dealt with as “revenue” following SORP section 16 and are not donations.

2.6 When identifying performance-related conditions, differentiation should be made between genuine performance conditions and those things which are merely milestones. For instance the requirement to deliver a report to a funder is unlikely in itself be a performance-related condition.

2.7 The FEHE SORP flags in paragraph 18.9 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.
- 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).

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

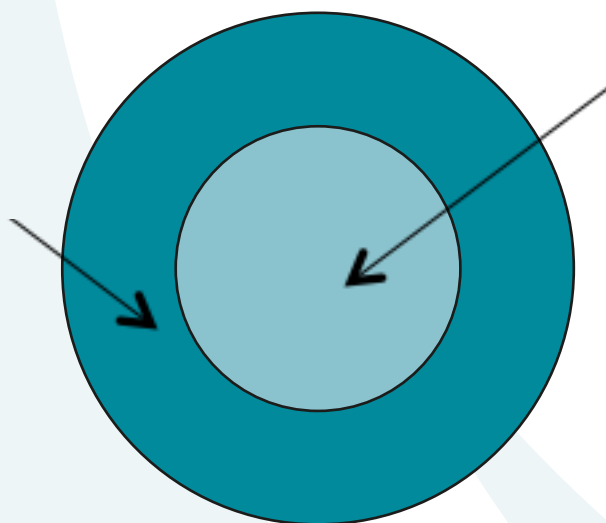
Recognition timing

- 2.9 Subject to the satisfaction of any performance-related conditions, donations and endowments are recognised (i.e. included in income in the SOCI) as soon as the institution is entitled to the income. Recognition may occur before receipt where entitlement has been established.
- 2.10 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 probate¹ once the executor(s) of the estate has established that there are sufficient assets in the estate, after settling liabilities, to pay the legacy.”
- 2.11 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

- 2.12 A performance-related condition is a type of restriction
- 2.13 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.

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 form a subset of restrictions and exist where the restrictions are such that the donor / grantor has stipulated the level of service or units of output on which the funds must be utilised before entitlement to the fund passes.

A worked example of a grant with performance conditions is shown in Appendix 2.

¹ The legal process by which the validity of a will is established.

3. Donation and endowment classification under the 2015 FEHE SORP

3.1 The new SORP requires separate disclosure in the balance sheet 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.

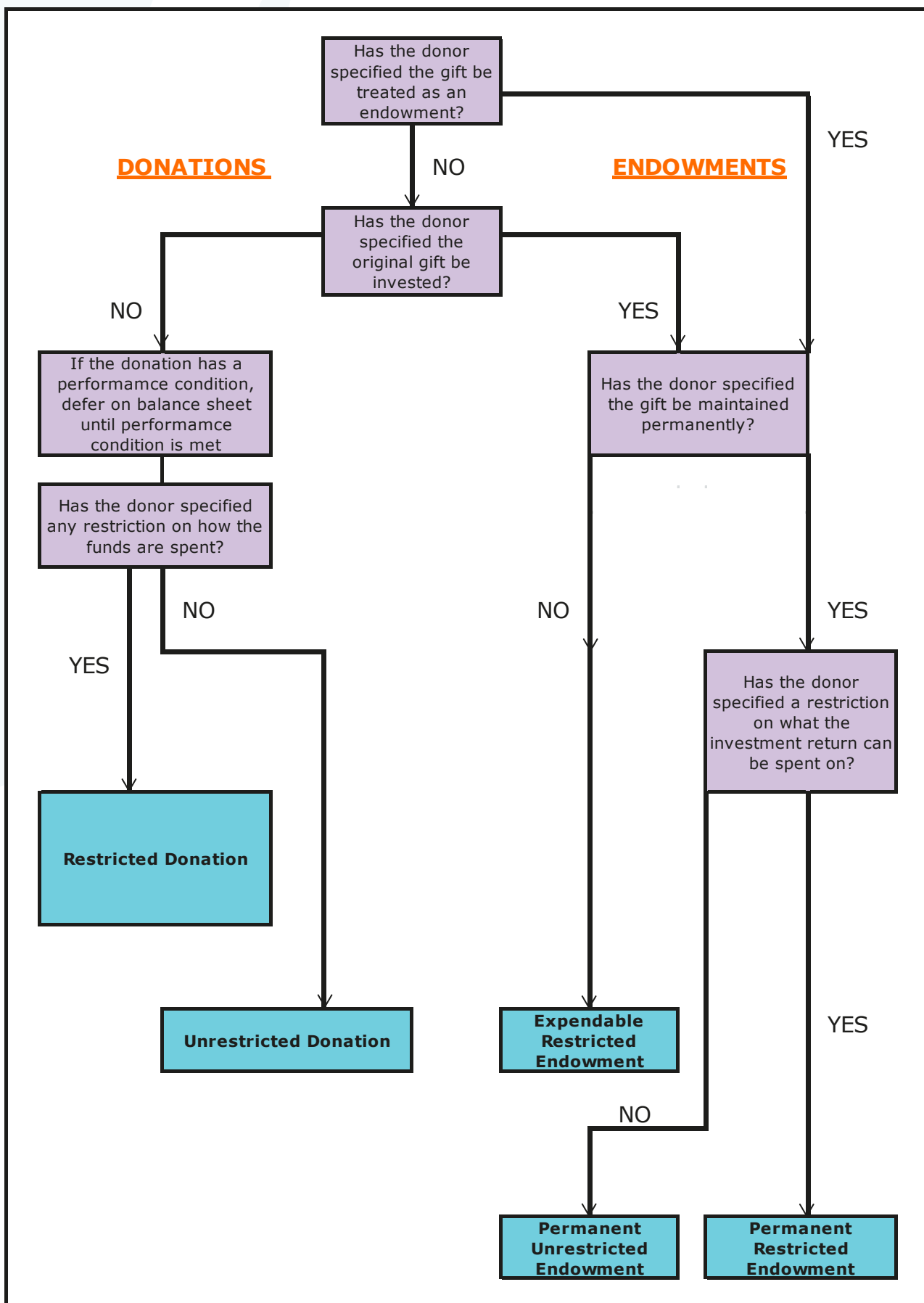
3.2 Accordingly, it is important to determine for each gift receivable whether it is

- a permanent restricted endowment;
- a permanent unrestricted endowment;
- an expendable restricted endowment;
- a restricted donation;
- an unrestricted donation.

This does not apply to gifts with performance conditions, but they are rare.

3.3 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:

- the gift must be maintained in perpetuity?
- the original gift is to be invested?
- the gift is to be spent on a restricted purpose?



Endowments v other restricted donations

- 3.4 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.

Restricted donations v unrestricted donations

- 3.5 FRS 102 introduces the concept of restriction. A restriction is “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.”

- 3.6 For balance sheet 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 balance sheet. Unrestricted reserves are reflected in general reserves.

- 3.7 The interpretation of a restriction has not changed in the 2015 FEHE SORP from the 2007 SORP and can generally be considered to be a restriction in use which goes beyond being for the general use of the University or a school/department of the University. 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.

Research is highly likely to have restrictions that meet the definition of performance conditions.

- 3.8 A donation may be regarded as being restricted if:
- 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
 - The donation made is for a named member of staff or a sub-unit of a department as specified by the donor or
 - 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 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 - see Government NHS Charity Guidance).

- 3.9 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 university 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 university which it was undertaking regardless of the level of donations received.

- 3.10 As with “restricted”, each university will have its own definition of what is a general activity / part of the university's strategy. For example the 2007 SORP defined “general” as follows:

‘The mission of further and higher education institutions is achieved by the creation, transmission and utilisation of knowledge and skills, by the development of individuals, some from disadvantaged backgrounds, and by contributing to the cultural and civic life of a region and the nation.’

- 3.11 The SOCI treatment of restricted donations and unrestricted donations is now identical under the 2015 SORP, whereas in previous SORPs this has not been the case. The surplus for the year cannot be affected by treating a restricted donation as unrestricted or vice versa.

- 3.12 Where a donor's wishes are not initially be 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.

4. Financial statement disclosures for restricted donations

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

- 4.1 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.
- 4.2 The following need to be disclosed
- Brought forward reserves
 - Additions
 - Expenditure for the year
 - Carried forward reserves
- 4.3 This can be achieved through a disclosure similar to this;

	As at 31 July 2013	New donations & grants	Capital spend	Restricted expenditure	As at 31 July 2013
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

- 4.4 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

- 4.5 Income included in "new donations" is included in the statement of comprehensive income (SOC) 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).
- 4.6 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.

- 4.7 Any investment income arising on unspent restricted funds is included in the SOCI 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.
- 4.8 Expenditure funded by restricted reserves is part of the expenditure dealt with in the SOCI but is not required to be shown separately except in the restricted reserves note.
- 4.9 At the foot of the SOCI the extent to which the total comprehensive income for the year is attributable to, and retained in, restricted reserves is disclosed.

Balance sheet

- 4.10 The balances on restricted reserves are included in the funds section of the balance sheet.

Other disclosures

- 4.11 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.

5. Endowment accounting and financial statement disclosures

- 5.1 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. 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.

Permanent or expendable

- 5.2 Expendable endowment funds should be distinguished from permanent endowment funds in the reserves notes (SORP paragraphs 18.12 and 18.13). This analysis is different to that required by the 2007 SORP where permanent and expendable endowments were separately disclosed on the face of the balance sheet. In addition some funds previously classified as expendable endowments will under SORP 2015 be classified as restricted reserves. Existing endowment balances need to be reviewed to check that they meet the definition of endowment in the SORP 2015.
- 5.3 As part of the transition to 2015 SORP, institutions should review endowments for correct classification between expendable and permanent endowments. The 2015 SORP does not change the definition of what is an endowment but there may be historical definition inaccuracies in entities’ financial statements which are worth reviewing. Expendable endowments which relate to donations being spent over more than 2 years will be reallocated as part of the transition to restricted income.
- 5.4 Restricted 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 trustees.
- 5.5 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.
- 5.6 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 University must treat the gift or legacy accordingly.
- 5.7 The Charity Commission (see [OG 43 B4](#)) gives guidance in situations where a donor’s wishes are not documented. The guidance advises charity trustees on the classification of donations as either (a) endowment or (b) income; in the context of the FEHE SORP this is equivalent to the classification as either (a) endowment or (b) donations (whether restricted or unrestricted). The guidance also advises on the distinction between permanent and expendable endowments, which is directly applicable to HE institutions. See Appendix 1 for an extract of this guidance.
- 5.8 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 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.

Restricted or unrestricted

- 5.9 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. This distinction is unchanged from the previous (2007) SORP.

Capital or accumulated income

- 5.10 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). This distinction is unchanged from the previous (2007) SORP. The two segments together form a single endowment fund, managed by trustees 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

- 5.11 These principles are unchanged from 2007 SORP but are set out here for completeness.
- 5.12 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.
- 5.13 It should be noted that "the income of a charity must be applied for its purposes within a reasonable period of receipt, unless the trustees have an explicit power to accumulate it. Without such a power, the trustees should not allow the charity's income to accumulate unless they have a specific use for it in mind". Source Charity Commission guidance: The Essential Trustee – what you need to know.
- 5.14 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.
- 5.15 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.
- 5.16 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.
- 5.17 Unrestricted endowments have no accumulated income segment, since all income arising in the year is utilised in the institution's general activities.
- 5.18 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

- 5.19 The 2015 SORP has removed the requirement to separately recognise endowment assets on the face of the balance sheet; the only balance sheet disclosure required is for the total of endowment reserves.
- 5.20 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)
 - Investment income (dividend and interest income)
 - Expenditure for the year
 - Carried forward reserves

5.21 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

5.22 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)
	6	-	(165)	(159)	(848)
(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

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

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

Statement of comprehensive income

5.25 Donations included in “new endowments” in the note above are included in the statement of comprehensive income (SOI) as part of the mandatory “donations and endowments” line. The note supporting the “donations and endowments” total will disclose the value of new endowments.

5.26 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.

5.27 Investment income arising on endowments is included in the SOI 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.

- 5.28 Expenditure funded by endowment funds is part of the expenditure dealt with in the SOCI but is not required to be shown separately except as above in the endowments note.
- 5.29 The expenditure shown against unrestricted endowments should match the investment income for the year in respect of unrestricted endowments (see 5.17 above).
- 5.30 The endowments note may reflect transfers between different categories of endowment. Such transfers do not impact the SOCI.
- 5.31 Capital appreciation or depreciation on endowments, whether realised or unrealised, will be included in the "gain (or loss) on investments" line of the SOCI 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.
- 5.32 At the foot of the SOCI 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 (SCR)

- 5.33 One column of the SCR 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 SCR, the analysis of the surplus or deficit for the year.

Balance sheet

- 5.34 The balances on permanent and expendable endowments are included in the reserves section of the balance sheet.
- 5.35 The assets relating to the endowments, be they cash, bonds, equities or investments, are recorded in the balance sheet according to their nature, i.e. together with similar assets which are held other than for endowments.

Statement of cash flows

- 5.36 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

- 5.37 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

- 5.38 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.
- 5.39 If a particular asset is an endowment and has a permanent restriction then it should be disclosed as a note in the fixed asset note section of the Financial Statements.
- 5.40 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.
- 5.41 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.
- 5.42 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.
- 5.43 Section 18.21 of the SORP requires the same information as above (5.40 and 5.41) 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.
- In this context, attention is drawn 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.
- The new SORP requires separate disclosure in the balance sheet of the unspent balances on:
 - (a) unrestricted reserves;
 - (b) restricted reserves,
 - (c) endowment funds, defined in SORP paragraph 18.11 as "a form of charitable trust retained for the benefit of the institution", 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.
- Donations can be credited to any of the categories of fund noted in the preceding paragraph, *depending entirely on the nature of any restrictions imposed by donor(s)*. All donation income must be categorised. In order to be able to report the unspent balances for (b) and (c) by category, expenditure against these restricted reserves must also be identified against each of these categories.
- Restricted reserves were not a feature of financial statements prepared under the previous SORP, which required that most charitable donations with restrictions were to be classified as endowments. In order to deal with this new feature, preparers should review all categories of donation including those previously included as endowments to ensure the correct separation.
- Unlike the Charities SORP, which is intended in part to enable a charity's financial statements to demonstrate its compliance with its legal obligations, the FEHE SORP enables a comparison of financial performance in the form of the statement of comprehensive income (SCI).
- 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.

Non-documentation of donor wishes

The Charity Commission (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 University 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.

Appendix 2

Worked example: grant 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.

Appendix 3

Example donation accounting life-cycles under the 2015 SORP

3.1 Unrestricted donation

An alumnus of the HEI has decided to give a donation of £100k for the University 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 University 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.

<p>Financial Year ended 31 July 20X1</p> <p>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;</p> <p>Dr Accrued Income £100k Cr Unrestricted Income £100k</p> <p>And recognised in unrestricted reserves</p>	<p>31 July 20X1</p> <p>INCOME STATEMENT</p> <table border="1"> <tr> <td>Unrestricted expenditure</td> <td style="text-align: right;">£100k</td> </tr> <tr> <td colspan="2"> </td> </tr> </table> <p>BALANCE SHEET</p> <p>Current Assets</p> <table border="1"> <tr> <td>Accrued Income</td> <td style="text-align: right;">£100k</td> </tr> <tr> <td colspan="2"> </td> </tr> </table> <p>Reserves</p> <table border="1"> <tr> <td>Unrestricted – I & E Reserve</td> <td style="text-align: right;">(£100k)</td> </tr> </table>	Unrestricted expenditure	£100k			Accrued Income	£100k			Unrestricted – I & E Reserve	(£100k)
Unrestricted expenditure	£100k										
Accrued Income	£100k										
Unrestricted – I & E Reserve	(£100k)										

<p>Financial Year ended 31 July 20X2</p> <p>When the cash is received in August 20X1 the accrued income asset is cleared against it;</p> <p>Dr Cash £100k Cr Accrued Income £100k</p> <p>There is no impact upon the income statement as the spending of the cash is treated as normal university expenditure.</p>	<p>31 July 20X2</p> <p>BALANCE SHEET</p> <p>Current Assets</p> <table border="1"> <tr> <td>Cash</td> <td style="text-align: right;">£100k</td> </tr> <tr> <td colspan="2"> </td> </tr> </table> <p>Reserves</p> <table border="1"> <tr> <td>Unrestricted – I & E Reserve</td> <td style="text-align: right;">(£100k)</td> </tr> </table>	Cash	£100k			Unrestricted – I & E Reserve	(£100k)
Cash	£100k						
Unrestricted – I & E Reserve	(£100k)						

3.2 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) if 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.

<p>Financial Year ended 31 July 20X1</p> <p>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;</p> <p>Dr Accrued Income £200k Cr Restricted Income £200k</p> <p>And recognised in restricted reserves.</p>	<p>31 July 20X1</p> <p>INCOME STATEMENT</p> <table border="1"> <tr> <td>Restricted Income</td> <td>£200k</td> </tr> </table> <p>BALANCE SHEET</p> <p>Current Assets</p> <table border="1"> <tr> <td>Accrued Income</td> <td>£200k</td> </tr> </table> <p>Reserves</p> <table border="1"> <tr> <td>Unrestricted – I & E Reserve</td> <td>(£200k)</td> </tr> </table>	Restricted Income	£200k	Accrued Income	£200k	Unrestricted – I & E Reserve	(£200k)		
Restricted Income	£200k								
Accrued Income	£200k								
Unrestricted – I & E Reserve	(£200k)								
<p>Financial Year ended 31 July 20X2</p> <p>When the 1st tranche of cash is received in August 20X1 the accrued income asset is partially cleared against it;</p> <p>Dr Cash £100k Cr Accrued Income £100k</p> <p>As the first £20k of the funds are spent they are recognised in the income statement;</p> <p>Dr restricted expenditure £20k Cr Cash £20k</p> <p>And £20k is transferred from restricted to unrestricted reserves;</p> <p>Dr Restricted – I&E Reserve £20k Cr Unrestricted – I&E Reserve £20k</p> <p>The net effect on the unrestricted reserves is £0 as the effect of the expenditure is recognised there as well.</p>	<p>31 July 20X2</p> <p>INCOME STATEMENT</p> <table border="1"> <tr> <td>Expenditure</td> <td>(£20k)</td> </tr> </table> <p>BALANCE SHEET</p> <p>Current Assets</p> <table border="1"> <tr> <td>Cash</td> <td>£80k</td> </tr> <tr> <td>Accrued Income</td> <td>£100k</td> </tr> </table> <p>Reserves</p> <table border="1"> <tr> <td>Unrestricted – I & E Reserve</td> <td>(£180k)</td> </tr> </table>	Expenditure	(£20k)	Cash	£80k	Accrued Income	£100k	Unrestricted – I & E Reserve	(£180k)
Expenditure	(£20k)								
Cash	£80k								
Accrued Income	£100k								
Unrestricted – I & E Reserve	(£180k)								
<p>Financial Year ended 31 July 20X3</p> <p>When the 2nd tranche of cash is received in August 20X2 the remaining accrued income asset is cleared against it;</p> <p>Dr Cash £100k Cr Accrued Income £100k</p> <p>As the remaining £180k of funds is expended in the year it is recognised in the income statement;</p> <p>Dr Expenditure £180k Cr Cash £180k</p> <p>And the remaining £180k is transferred from restricted to unrestricted reserves;</p> <p>Dr Restricted – I&E Reserve £180k Cr Unrestricted – I&E Reserve £180k</p> <p>Leaving restricted reserves at £0 and as before unrestricted reserves nets to £0</p>	<p>31 July 20X3</p> <p>INCOME STATEMENT</p> <table border="1"> <tr> <td>Expenditure</td> <td>£180k</td> </tr> </table>	Expenditure	£180k						
Expenditure	£180k								

Appendix 4

Example endowment accounting life-cycle under the 2015 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 Universities. 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 Penguinology.

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

Under the 2015 SORP 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 (BS)	£1m
Cr New endowment income (SOCI)	£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 (BS)	£1m
Cr Permanent Restricted Endowment Capital (BS)	£1m

Investing in the unitised fund

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

Dr Investment asset cost (BS)	£1m
Cr Cash (BS)	£1m

Year Ended 31 July 20X1			
INCOME STATEMENT		BALANCE SHEET	
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)
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

Financial Year 20X1/2

Over the course of the 1st year the market value of the investment increases by 7% (£70k), and earns income of 2% (£20k).

As this is a permanent endowment only investment income, in this case 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

Under the 2015 SORP 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 (BS)	£70k
Cr Investment Gains/ (losses) (SOI)	£70k
Dr Cash (BS)	£20k
Cr Investment Income (SOI)	£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 (BS)	£90k
Cr Permanent Restricted Endowment Capital (BS)	£70k
Cr Permanent Restricted Endowment Accum Income (BS)	£20k

Recognising spend of endowment income

During the year £15k of expenditure against the endowment has been incurred, unlike under the 2007 SORP this no longer results in a transfer to surplus as income has already been recognised for the investment gains. Instead a transfer from endowment to unrestricted reserves is performed.

Expenditure is recognised as for any normal expense;

Dr Commercialisation costs (IS) £15k

Cr Cash (BS) £15k

Triggering the requirement for a reserves transfer posting;

Dr Permanent Restricted Endowment Accum Income (BS) £15k

Cr Unrestricted Reserves (BS) £15k

Year Ended 31 July 20X1			
INCOME STATEMENT		BALANCE SHEET	
Investment Income	£12k	Non-current Assets	
Other Operating Expenses	(£15k)	Non-current Investments	£1,070k
SURPLUS BEFORE OTHER GAINS AND LOSSES	£5k		
		Current Assets	
Investment Gains/(losses)	£70k	Cash	£5k
TOTAL COMPREHENSIVE INCOME	£75k	NET ASSETS	£1,075k
		Reserves	
		Endowment Capital	(£1,000k)
		Endowment Accumulated Income	(£5k)
		TOTAL RESERVES	(£1,075k)

Appendix 5

Extracts from Model Financial Statements featuring donations and endowments

Primary statements

Consolidated Statement of Comprehensive Income and Expenditure:

Analysis of income showing grants and donations

	Notes	Year Ended 31 July 201Y		Year Ended 31 July 201X	
		Consolidated £'000	University £'000	Consolidated £'000	University £'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
Total income before endowments and donations (optional subtotal)		181,045		157,646	
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 Balance Sheet:

Analysis of reserves showing endowment reserves and restricted reserves

	Notes	Year Ended 31 July 201Y		Year Ended 31 July 201X	
		Consolidated £'000	University £'000	Consolidated £'000	University £'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

Statement of Accounting Policies

3. Income recognition

Grant funding

Grants (including research grants) from non-government sources are recognised in income when the University 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 balance sheet and released to income as the conditions are met.

Donations and endowments

Non-exchange transactions without performance related conditions are donations and endowments. Donations and endowments with donor imposed restrictions are recognised in income when the University 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 University 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 University.
3. Restricted expendable endowments - the donor has specified a particular objective other than the purchase or construction of tangible fixed assets, and the University 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.

21. Reserves

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

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

Notes to the accounts

	<i>Notes</i>	Year Ended 31 July 201Y		Year Ended 31 July 201X	
		Consolidated £'000	University £'000	Consolidated £'000	University £'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

25. Endowment Funds

Restricted net assets relating to endowments are as follows:

	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				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)

26. Restricted Reserves

Reserves with restrictions are as follows:

	Capital Grants Unspent £'000	Other Restricted Funds / Donations £'000	201Y Total £'000	201X Total £'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 utilised	(340)	-	(340)	-
Expenditure	-	(355)	(355)	(225)
	(340)	(289)	(629)	(30)
At 31 July 201Y	640	806	1,446	1,468

	201Y Total £'000	201X Total £'000
Analysis of other restricted funds / donations by type of purpose:		
Research support	618	491
Prize funds	65	79
Other	123	118
	806	688

Appendix 6

Total return endowment investment management and accounting

Total return accounting applies only to charities established in England and Wales and which are subject to the Charities Act 2011.

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

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://www.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 either to obtain an order of the Charity Commission made under section 105 of the Charities Act 2011 or have its trustees pass a resolution under Section 104(A) 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. Universities considering adopting total return accounting can contact other Universities who have adopted this who maybe happy to provide details of the accounting, approach and any issues they faced in its adoption.

Total return endowment reserves note

	Unrestricted			Restricted			TOTAL
	Capital	Unapplied Return	Total	Capital	Unapplied Return	Total	
	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Endowment Capital	101.8		101.8	231.6		231.6	267.3
Unapplied return		137.7	137.7		148.5	148.5	286.2
Balance as at 31 July 2013	101.8	137.7	239.5	231.6	148.5	380.1	619.6
New endowments	0.5		0.5	10.4		10.4	10.9
Allocation of unapplied return to capital	1.6	(1.6)	-	3.6	(3.6)	-	-
Investment return: dividends and interest		1.2	1.2		2.0	2.0	3.2
Investment return: realised and unrealised gains and (losses)		6.0	6.0		20.1	20.1	26.1
Expenditure from unapplied return		(9.5)	(9.5)		(13.8)	(13.8)	(23.3)
Balance as at 31 July 2014	103.9	133.8	237.7	245.6	153.2	398.8	636.5
Represented by:							
Endowment Capital	103.9		103.9	245.6		245.6	349.5
Unapplied return		133.8	133.8		153.2	153.2	287.0
	103.9	133.8	237.7	245.6	153.2	398.8	636.5

Appendix 7

Example transition checklist

Principal changes

1 Under the 2015 SORP, the University will no longer present in the Financial Statements a separate IE Account and STRGL, as these are now replaced by a combined statement called the Statement of Comprehensive Income (SOCi).

- a. New endowments will be recognised as income in the SOCi
- b. Capital appreciation / depreciation (on endowments invested) will be recognised as a gain or loss in the SOCi
- c. Dividend Income and Endowment Expenditure will be recognised in the SOCi

All of the above will impact on the 'Total Comprehensive Income for the Year', which will result in the reporting of a more volatile surplus/deficit for the year.

2 The 2015 SORP introduces the concepts of 'restricted donation' and 'donation with performance-related conditions'.

The 2015 SORP also introduces the requirement for a donor to explicitly express their intent for an endowment fund to be established (unless it is deemed that restrictions are sufficiently large compared to the expenditure it relates to that an endowment exists).

Therefore, any restricted gifts with no donor intent to create an endowment fund that were classified as 'restricted expendable endowments' under the 2007 SORP, will now need to be reclassified as a type of donation under the 2015 SORP.

"An institution must consider its own circumstances to determine if funds are restricted or not (FEHE SORP para 18.8)

Checklist

	Donations	Endowments	
	Action	Action	Due Date
Technical			
Interpretation	In order to be able to assess to which type of donation these restricted expendable endowments should be reclassified, consider the circumstances of the University, and clarify and document how the University is interpreting the word 'restriction' in the context of donations.		
Materiality	Review de minimis thresholds to be applied when classifying gifts.		
Review and Restatement	<p>Review the classification of each donation held in the Balance Sheet, as at 31st July 2014 (opening balances of first comparative year), to determine whether under the new SORP a classification change and therefore a release to income is required.</p> <p>Also review whether any new donations received in 2014/15 will require reclassification.</p>	<p>Review the classification of each endowment, as at 31st July 2014 (opening balances of first comparative year), to determine whether under the new SORP a classification change between categories of endowment, or to donations (if endowing the funds was not required by the donor) is required.</p> <p>Also review whether any new endowments received in 2014/15 will require reclassification.</p>	
	If any classification changes are required, prepare and post restatement adjustment.	If any classification changes are required, prepare and post restatement adjustment.	
Processes and Systems			
Chart of Accounts	<p>Review the current donations coding structure, to determine if it is suitable to capture all donation transactions under the new SORP.</p> <p>For example, new TB codes may be required to:</p> <ul style="list-style-type: none"> - recognise restricted donation income in SOCI - recognise donation with performance-related condition(s) income in SOCI - hold restricted donations income in a temporarily restricted reserve until related expenditure is incurred - defer any donation(s) with a performance-related condition(s), until that condition(s) is met 	<p>Review the current endowments coding structure, to determine if it is suitable to capture all endowment transactions under the new SORP.</p> <p>For example, new TB codes may be required to:</p> <ul style="list-style-type: none"> - recognise new endowments as income in SOCI - recognise market value movements in SOCI 	

	Donations	Endowments	
	Action	Action	Due Date
Finance System	<p>Review finance system to understand how restricted donation transactions will flow through from SOCI to Restricted Reserves.</p> <p>If the system automatically drops all SOCI transactions into Unrestricted Reserves, a new process will be required to capture restricted donation transactions and transfer them to Restricted Reserves.</p>	<p>Review finance system to understand how endowment transactions will flow through from SOCI to Endowment Reserves.</p> <p>If the system automatically drops all SOCI transactions into Unrestricted Reserves, a new process will be required to capture endowment transactions and transfer them to the correct Endowment Reserve.</p>	
Process Maps	<p>Review, and update, Donations process maps to show how to classify donations under the new SORP, and how to account for restricted donations and donations with performance-related conditions (and TB codes to be used).</p>	<p>Review, and update, Endowments process maps to reflect the changes in how endowment transactions are recognised.</p> <p>Document the accounting treatment (and TB codes to be used) for each type of endowment transaction.</p>	
Guidance			
Decision Tree	<p>Create new Donations and Endowments Decision Tree to enable Development & Alumni Relations and finance staff to classify gifts correctly.</p>		
Finance Handbook	<p>Update Finance Handbook (and/ or any other sources of guidance on donations), to explain the concepts of a 'restricted donation' and a 'donation with performance-related conditions'.</p>	<p>Update Finance Handbook (and/ or any other sources of guidance on endowments), for the changes in accounting for endowments.</p> <p>Also update to introduce the requirement for a donor to explicitly express their intent for an endowment fund to be established (unless it is deemed that restrictions are sufficiently large compared to the expenditure it relates to that an endowment exists).</p>	

	Donations	Endowments	
	Action	Action	Due Date
Reporting			
Monthly Management Accounts	<p>Review the classification of each donation held in the Balance Sheet, as at 31st July 2014 (opening balances of first comparative year), to determine whether under the new SORP a classification change and therefore a release to income is required.</p> <p>Also review whether any new donations received in 2014/15 will require reclassification.</p>	<p>Consider adding a line to analyse out "Endowment comprehensive income" in the Monthly Management Accounts (following the format of the Annual Report). This would enable users of these accounts to easily see the net movement (surplus or deficit) on endowments due to new endowment income, investment income generated on endowments and expenditure on endowments.</p>	
Training and Communications			
Senior Leadership Team / Budget Holders	<ol style="list-style-type: none"> 1) Give presentation to Senior Leadership Team / Budget Holders to explain changes in accounting for donations and endowments and why these changes will result in the reporting of a more volatile surplus/deficit for the year. 2) Communicate to the relevant academic / budget holders, any endowments that change classification (e.g. to an unrestricted donation) under the new SORP. This communication can be used to address any potential concerns around perceptions of 'loss' and to present solutions as to how the gifts can continue to be tracked (if required). 		
Finance Staff	<p>Provide training to finance staff on:</p> <ul style="list-style-type: none"> - the changes to accounting for donations and endowments - the introduction of the new concepts of 'restricted donation' and 'donation with performance-related conditions' <p>Communicate and provide training on any associated changes to processes, and inform of any new TB codes.</p>		
Development & Alumni Relations	<p>Provide training on how classification of gifts has changed under the new SORP, and how to use the new Decision Tree to correctly classify gifts.</p> <p>Provide additional training if any of the endowment process changes involve Development & Alumni Relations.</p>		

BUFDG members benefit greatly from the voluntary efforts of working group members. Members of the Financial Reporting Group have been unstinting in their support of the development of the 2015 FEHE SORP and we owe them a huge debt.

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