**ENDOWMENT FUND INVESTMENT INCOME AND**

**BOARD APPROVED SPENDING POLICY GUIDELINES**

The endowment fund investments consist of three components:

1. ***Investment Income*** – Interest Income, Dividends and other income.
2. ***Realized Gains/Losses*** – income derived from sale of stocks, bonds, etc. within the investment portfolio.
3. ***Unrealized Gains/Losses*** – Change in value of current investment items within the investment portfolio.

It is the policy of the BSA, that investment revenues (income) are recorded directly in the Operating Fund. If the council does not have a board approved Fixed Spending policy, the council then is permitted to take the only unrestricted investment income earned for the year.

Debit cash account 1-1001-XXX-00

Credit Investment Income 1-6503-XXX-90

Financially Sustainable Councils Strategic Plan recommends board approved Investment and Spending Policy Guidelines should range between 4% and 5%. Board approved Spending Policy Guidelines 7% or higher are considered to be imprudent. Board approved Spending Policy Guidelines 3% or less could put the operating fund at risk

Councils with a board approved Investment and Spending Policy Guideline:

***Scenario A***

If the council has a board approved Investment Policy and Spending Guideline of 5% per year (allowing for growth of the Endowment Fund net of Expenses) and the fund earns more than 5% for that year, the council may record up to 5% of their endowment earnings for that year as investment income on the Statement of Operations.

Debit cash account 1-1001-xxx-00

Credit Investment income 1-6503-xxx-90

This is an **“above the line”** transaction. A portion of this investment income is likely to be the *recognition of some realized gains* for that year on the investments held in the endowment fund.

***Scenario B***

If the council has a board approved Investment Policy and Spending Guideline of 5% per year (allowing for growth of the endowment fund net of expenses) and the fund only earned 4% for that year, the council can record only 4% of the endowment earnings for that year as investment income on the Statement of Operations. This is an **“above the line”** transaction and a portion of this investment income is still likely to *recognition of some realized gains* for that year on investments held in the endowment fund. The additional 1% needed to bring over to achieve the 5% to the Operating Fund is recorded as a transfer from fund 3 **“below the line”** and is not recorded as investment income for that year. This is likely to result in the council not achieving that year’s budget target for investment income.

Debit cash account 1-1001-xxx-00 4%

Credit investment income 1-6503-xxx-90 4%

Debit Cash account 1-1001-xxx-00 1%

Credit Transfer from endowment fund 1-3903-xxx-00 1%

Debit Transfer to Operating fund 3-3951-xxx-00 1%

Credit Cash account 3-1xxx-xxx-00 1%

The Financial Standards Accounting Board has ruled that not-for-profit organizations must show the current market value of investments on statements.

***To record an unrealized gain:***

Debit Accts Rec – Unrealized Gains or Losses 3-1272-xxx-00

Credit Unrealized Gains or Losses – Unrestricted 3-6651-xxx-90

Or Credit Unrealized Gains or Losses –Temp.restricted 3-6661-xxx-90

Or Credit Unrealized Gains or Losses –Perm.restricted 3-6671-xxx-90

***To record an unrealized loss:***

Debit Unrealized Gains or Losses – Unrestricted 3-6651-xxx-90

Or Debit Unrealized Gains or Losses –Temp.restricted 3-6661-xxx-90

Or Debit Unrealized Gains or Losses –Perm.restricted 3-6671-xxx-90

Credit Accts Rec – Unrealized Gains or Losses 3-1272-xxx-00

***Important Exceptions:***

Too high of a spending policy rate could overtime deplete the councils unrestricted net assets in the endowment fund. While councils may have a spending policy up to or at 5%, if they have no unrestricted net assets left, transfer of temporary and restricted endowment assets are not permitted.

To record realized gains on investments

Debit Long Term Investments 3-1901xxx-00

 Or other appropriate investment account

Credit Gain or Loss on Investment Transactions

Unrestricted 3-6601-xxx-90

Or

Credit Gain or Loss on Investment Transactions

 Temporarily Restricted 3-6611-xxx-90

Or

Credit Gain or Loss on Investment Transactions

 Permanently Restricted 3-6621-xxx-90

To record a loss the credit would be to the investment account and the Debit would be to the Gain or Loss on Investment Transaction account.