



**NATIONAL ACADEMY OF PERFORMING ARTS
POLICIES AND PROCEDURES**

Issuing Department: FINANCE	Topic: Endowment Fund Policy		Policy # FA 03-2013
New – Yes (Approved by BOD in their meeting held on September 7, 2013)	Revised: No	Supersedes Policy # : N/A	Effective Date: July 1, 2013

1. STATEMENT:

This policy explains NAPA’s endowment funds, the administration of these funds based on their classifications, and accounting for these funds.

2. APPLICABILITY:

This policy applies to all employees obtaining endowments in any form for NAPA, departmental employees who monitor the Cost Center Reports for endowment funds, and employees responsible for accounting and reporting the endowment funds.

3. DEFINITIONS

3.1 Endowment: An endowment is a gift in the form of cash, securities, or other assets (known as the corpus, the principal amount of the gift) set aside for the purpose of generating current and future income. The donor may permanently restrict, temporarily restrict, or not restrict the use of the assets. There are three types of endowments:

3.1.1 True or Pure Endowment: Assets given are held “in perpetuity” or forever. Unless otherwise stated in the gift agreement, a true or pure endowment is an asset that is held “in perpetuity” the donor requires that the principal amount (or corpus) of the gift remains intact. This type of endowment is permanent. NAPA cannot spend the principal. However, NAPA can spend and, in some cases, reinvest the income generated by the principal.

3.1.2 Term Endowment: An endowment which the donor has stipulated that after a certain amount of time or after the occurrence of an event, all or part of the assets may be spent. The portion of the endowment that is maintained for a specified period of time is classified as a temporarily restricted net asset.

3.1.3 Quasi-endowment / FFAE (Funds Functioning as Endowment): Endowment funds which NAPA’s Board of Directors, not the donor, have voluntarily set aside to be retained and invested. The principal as well as the income may be used at the direction of the Board of Directors, since these funds are not donor-restricted; they are classified as unrestricted net assets.

4. PURPOSE:

The purpose of this policy is to describe the acquisition, investment, and maintenance of the endowments; reinvestments of the income from the endowments; and the paperwork that NAPA department prepares.

5. CLASIFICATION:

Endowment is classified according to the nature and purpose as per desire of the donor of the fund. Classification is as under:

5.1 Pooled Fund. The donor has placed no limitation or restriction on the gift as to the type of investment that can be made with the funds. NAPA pools these funds together for investment purposes.

Pooled Fund is similar to a mutual fund with each endowment gift purchasing certain number of units in a pooled investment vehicle. Accounts Department will calculate the cost of each purchasing unit, and also allocates income of the pooled fund to the respective investments. This policy is designed to preserve the investment portfolio at their actual weightage in the pool.

The income distribution of new gifts will be determined based on the number of units purchased adjusted for the period the gift is held.

5.2. Separately Invested Fund: At time, the term of the endowment agreement prohibit the pooling of assets. The donor may require NAPA to obtain a particular investment manager or limit investment to a particular type of security or property.

5.3. Life Income: The donor contributes funds to NAPA with the requirement that NAPA makes periodic payments to designated income beneficiaries. Some life income plans make payments from income only; others may also distribute the principal. The trust, or in some cases a contract, terminates at a time specified in the agreement, usually upon the death of a designated individual. Upon termination, NAPA transfers the balance of the fund in accordance with the desire of the donor in the form of Gift Transmittal Form or any other communication.

5.4 Trusts Held by Others: NAPA neither possesses nor manages these funds. An external agent who manages the funds at the direction of the donor holds the funds. NAPA receives income generated by the funds.

6. ADMINISTRATION:

The designated officer in NAPA receiving the endowment should contact the finance department when a donor makes an endowment. The officer is responsible for sending out a letter acknowledging the endowment and thanking the donor. The officer sends the endowment package to the Accounts department, which should contain the following:

- Complete Gift Transmittal Form [Form FA-03-001].
- The endowment assets (cash, cheque, pledge, shares certificates, or other assets).
- Envelop in which the endowment asset came.
- Any documentation from the donor. This includes a letter, endowment agreement, matching endowment information, endowment purpose (which includes any restrictions), and cost Center receiving the endowment, and any other information from the donor.
- A summary of the verbal conversation in relation to endowment assets with the donor, if any.
- Copy of acknowledgment letter sent to donor.

For all endowment gifts, the employee receiving the endowment must contact Accounts Department immediately for the deposit, processing and recording of the endowment.

The Accounts department will enter the endowment into the system and will file copy of the acknowledgment letter sent to the donor with the voucher prepared for recording the endowment in the system. The Accounts Department processes journal entries for all investment activities relating to the endowment will also calculate the market value for each pooled endowment.

6.1 Reinvesting the Income: Reinvestment of income from an endowment will only be made if it is in accordance with the gift agreement or written consent from the donor was subsequently obtained. Reinvestments must also be budgeted. Accounts Department should complete the Endowment Funding Approval Form in respect of reinvestment of income and submit it to the General Manager Finance for onward submission to the Chief Executive or the Committee of the Board for the approval.

6.2 Funding Endowments: Transfers of other funds into an endowment must also be budgeted and approved by the Board of Directors.

6.3 Changing the Classification of an Existing Endowment: In order to change the classification of an existing endowment, NAPA must obtain donor's approval with input from NAPA's legal counsel and the Accounts Department. NAPA's legal counsel and the Accounts Department ensure that NAPA is adhering to the original conditions established by the donor.

6.4 Closing an endowment: A request to withdraw or liquidate an endowment must be prepared by the endowment officer and reviewed by the Accounts Department and NAPA's legal counsel. After clearance closure of the endowment will be approved by General Manager Finance and Chief Executive.

6.5 Accounting for Investments: Accounting entries for investments are processed simultaneously with the actual transaction for each accounting period for the statement dates ending in the preceding month. After the close of monthly period, the Accounts Department does not re-open the accounting books for any revisions unless specifically approved by the General Manager Finance for reasons to be recorded. Otherwise, any revisions if necessary will be adjusted for, by the Accounts Department in the following closing period.

Income is calculated and allocated on maturity or year ending date whichever is earlier. Realized gain /loss on disposal of pooled investment will be recorded as and when earned.

Total return on investments is calculated after deduction of realized losses and expenses (if any) related to managing and the accounting of the pooled endowment.

7. RESPONSIBILITIES:

7.1 Endowment Officer: Person identified for Endowment functions will be responsible to ensure the following:

1. Send an acknowledgment letter to the endowment donor
2. Notifies the Accounts Department
3. Assembles the endowment package
4. Send the endowment package to the Accounts Department
5. Prepare and submit the Endowment Funding Approval Form to obtain approval for income reinvestment and funding the endowment from other sources, if appropriate
6. Budgets for the approved income reinvestment and/or funding of the endowment
7. Prepares and submits journal voucher for income reinvestment and/or endowment funding to NAPA using appropriate source and account codes
8. Reviews the Cost Center Report (CCR) monthly and notifies Accounts Department if the departmental reviewer notes a discrepancy between the CCR and the department's records.

7.2 Accounts Department: Accounts department will be responsible for the following functions:

1. Record the endowment information into General Ledger
2. Notifies to General Manager Finance the endowment and the new cost center, if applicable
3. Processes all pooled and separately invested activities in the General Ledger.
4. Prepares and sets income distribution amounts for the pooled funds and for separately invested funds.
5. Reviews, approves, and processes income reinvestment and funding of endowment journal vouchers based on approved Endowment Funding Approval Form.

7.3 General Manager Finance: Will be responsible to work with the Accounts Department, and the donor to change the designation of any existing endowment to ensure that NAPA is adhering to the original requirements of the donor.

8. ENFORCEMENT:

Once Policy is approved by the Board of Directors, it will be responsibility of the Chief Executive to enforce the policy. Persons / departments identified for the respective function in the policy will be accountable for the function.

8.1 CONSEQUENCE OF NOT FOLLOWING THE GUIDELINES:

8.1.1. If the department does not send the endowment package to the Accounts Department, promptly, the donor may not make additional endowments or be able to take the allowable tax deductions.

8.1.2. If the Accounts department does not process the endowment package promptly, the donor may not be able to take the allowable tax deductions. NAPA also has an incomplete picture of its assets and financial status.

8.1.3. If the department does not consult the Gift Acceptance Policy and NAPA Guidelines before accepting an endowment, NAPA may have endowments for which it has difficulty in determining the value or disposing of the assets.

9. RESOURCES:

Chief Executive Officer will ensure that sufficient resources are made available to the identified person / department to enable them to fulfill their responsibilities.

10. APPROVAL:

Authority to approve and make amendment in the Policy will rest with the Board of Directors

11. REVIEW CYCLE:

Policy will be reviewed and updated after one year for the first time, then after, policy will be reviewed once in two years, unless amendments are necessary earlier