

# Managing and Accounting for Donated Funds, Grant Funds and Endowments

# Donated Funds

- » Funds are donated to non-profit organizations with restrictions or without restrictions
- » Unrestricted donations may be used for any purpose
- » Restricted donations may have temporary or permanent restrictions
- » Organizations must account for restricted funds separately from those funds received without restrictions

# Accounting for Donated Funds

- » Funds received without donor restrictions are credited to operating income as gift or donation income and may be used for any purpose of the organization.
- » Funds received with donor restrictions need to be accounted for in such a way that reports show that they are restricted and that reports can be easily prepared for the donors and be audited.
- » When restricted funds are received they are normally credited to a restricted net asset account bearing the name of the project or purpose for the funds, such as “backup generator project”.
- » At the time the funds are spent, the restricted net asset account is debited and additional entries are made to credit donation income and debit the appropriate asset and/or expense account(s).

# What is a Grant?

- » A grant is an award, usually financial, given by one entity (typically a company, foundation, or government) to an individual or organization to fund ideas and projects.
- » Grants are essentially gifts that do not have to be paid back, under most conditions.
- » Grants support critical recovery initiatives, innovative research, and many other programs.

# What does it mean to receive a Grant?

- » A grant is “free money” given to a recipient for a project that meets certain criteria or to complete a specific task.
- » A grant can only be used for a specific purpose.
- » The grant document may be very detailed and contain many restrictions on receiving funding, reporting to grantor and audits.
- » If the funds are not used according to the grant document they often have to be returned to the donor.

# Accounting for Grant Funds

- » The grant document often determines the way the accounting and reporting is done.
- » When grant funds are received they are usually credited to and held in a deferred income or trust fund liability account or a restricted net asset account.
- » When the organization spends grant funds, the account where the funds are held is debited and additional entries are made to credit grant income and debit the appropriate asset and/or expense account(s).

# What is an Endowment?

- » In simple terms, an endowment is a fund with money or other income producing assets in it, set up to provide long-term support for a particular nonprofit organization or purpose.

# Types of Endowments

- » **Restricted Endowment:** In a restricted endowment, the principal is held in perpetuity and cannot be spent. Also referred to as “True Endowment” or “Permanent Endowment” where the donor has permanently restricted the funds.
- » **Unrestricted Endowment:** An unrestricted endowment is when the funds can be spent at the discretion of the organization receiving the gift. Also referred to as “Quasi-endowment” or “Funds Functioning as Endowment”. Organizations sometimes designate certain unrestricted assets as quasi-endowments.
- » **Term Endowment:** The donor has restricted the use of the principal for a certain period of time or until a certain condition has occurred.



# Benefits of an Endowment Fund

- » Diversify your organization's income.
- » Attract and impress new donors.
- » Become better prepared to weather economic downturn.
- » Better support for your planned giving program.
- » Create a solid foundation for your organization's future.

# How much money is needed for an Endowment?

- » Organization needs to set the minimum amount needed to create an endowment fund
- » Minimum amount varies based on type of endowment, such as nursing scholarship fund or operating endowment fund.
- » Minimum amount should be enough to generate adequate annual income to fund the objectives of the endowment fund

# Managing Endowment Assets

- » Since the intent is that true endowments are perpetual, the endowment assets should be invested so that they generate enough annual income and growth in value to fund the purpose of the endowment and for the principal amount invested to grow with inflation.
- » Organizations with endowments should have appropriate endowment investment policies and spending rate policies that will preserve the purchasing power of the endowments.
- » Some governments have regulations on how endowments are to be managed and policies for protecting the principal which should be followed.