Fund Establishment Protocol

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Many nonprofit organizations have been encumbered by excessive requirements for the establishment of unique funds to accommodate donor-restricted gifts. Just as many organizations have avoided such requirements thanks to long-standing cooperative and trusting relationships between fundraising and business offices.

Philanthropy/advancement/fundraising offices can work closely with donors to frame gift agreements that are not overly restrictive to ease the necessity for fund establishment. While we wish to accommodate donor intent, our discussions with donors should address the difficulty that often comes with managing too many, or any, restrictions. Further, in many cases, programs to which donors contribute may often not require utilization of 100% of the funds given – or the original purpose may become unnecessary or irrelevant. Therefore, gift agreements should include language that enables the institution to redirect those funds when circumstances warrant. Example language might include:

> Donor agrees that [organization name] may modify the criteria for this gift over time if it determines that the purpose of the gift is no longer necessary or defunct. In such an event, the [organization name] shall use the gift in the matter that most closely satisfies the intentions of the donor to the extent possible.

The following suggests a protocol to further minimize unique fund establishment for outright gifts. Undesignated bequests and gifts for endowment purposes should be addressed in separate institutional policy/protocol statements.

Generally, when a donor designates a contribution for a specific purpose that is more limited than the general activities of a non-profit organization, institutional accounting principles may require the creation of a restricted account *in the financial system*, to manage the funds and ensure that they are used for their intended purpose. However, establishing and managing restricted accounts requires considerable effort and overhead, and, depending on the design of the chart of accounts, only a limited number of such restricted funds may be available. Therefore, when donors designate smaller contributions for a specific purpose, generally to be spent within a short period of time, it is not necessary for non-profit organizations to invoke the entire mechanism of creating and managing a restricted account.

Building trust and cooperation between philanthropy, finance, and operational departments are key, then, to eliminate many of these fund establishment requirements.

The following guidelines for minimizing the creation of new funds are based on successful practices at numerous nonprofit organizations. These practices are most successful when:

- Policies are developed in a cooperative environment between philanthropy and business offices, usually requiring a joint task force from both areas including technical staff who support the respective transaction systems
- Accountability measures are developed with mandatory performance criteria and review by unit business officers
- Internal and external auditing staff are involved from the outset to ensure their input is received and accommodated
- Clear, effective reports and other tools are developed to facilitate the process
- Sufficient enactment time is allocated to ensure implementation is approached thoughtfully. When the current process has existed for years if not decades, change cannot be expected in just a matter of weeks or months

These factors cannot be ignored. Often, outside arbitrators/facilitators/mediators are utilized to work through "rough spots" where little give or take has occurred – yet there must still be a willingness on the part of all to seek a remedy. And often that process can take years – not months.

Additionally, to initiate the process several fundamental principles must be embraced by all parties:

1. The are no laws that require the establishment of new funds when many one-time gifts are received for a specific purpose unless those gifts are establishing endowments in which case UPMIFA will apply.
2. Philanthropy offices are usually responsible for the solicitation of necessary funding. However, donors often will suggest funding initiatives independently which require review and approval through the gift acceptance protocol established by the organization. Nonetheless, it is the philanthropy office that initially shepherds all donations into the system.
3. Business offices are responsible for ensuring funds are expended as required.
4. Fund administrators are responsible, and accountable, for tracking the utilization of gifts with a specific purpose.
5. Philanthropy offices are responsible for stewarding donors and assuring them that gifts will be, or have been, spent in accordance with their wishes.
    a. The above notwithstanding, there is no law that requires donor receive *any* accounting of their gifts – The Donor Bill of Rights simply asserts that donors are "To be assured their gifts will be used for the purposes for which they were given." No formal accounting is mandated. Although there are circumstances (see below) when sharing details is appropriate.

As noted earlier, the recommended national best practice for fund establishment is that new funds need only be established when one or more of the following conditions apply:

- Donor restrictions and awarding criteria mandate a full accounting of expenditures. Common examples include endowments, planned gifts, research grants, and corporate/foundation grants/awards
- Funds are collected over multiple fiscal years prior to expenditure
- Funds are to be spent over multiple fiscal years
- The contributed amount is material – e.g. more than $5,000 is a common threshold although materiality can vary considerably based on the size of the organization (the larger the organization the higher the threshold) – and is to be expended on more than one activity within the same unit
- There is an expectation that many gifts will be received for the purpose, even if individual gifts may be of modest size

With these considerations as a foundation, a suggested protocol for gifts that ***do not*** require a separate fund for any of the above reasons is:

A. All institutional departments that do – or are expected to – receive contributions establish a single "[Department/Office Name] General Fund." Some organizations call these discretionary funds, but that title suggests that the fund administrator has full discretion over how deposited gifts can be spent, which is not always the case. The Department General Fund would receive gifts with a specific designation or purposes that would fall within the scope of the department or office. The Discretionary Fund would receive only unrestricted gifts directed to be spent by the department as it deems necessary.

B. Each department identifies a single fund administrator to manage all gifts credited to the Department General Fund. Communication to and with that administrator is facilitated using an accountability reporting tool. That administrator establishes accountability measures to:

    a. Identifying the individual or group that will be responsible for spending each gift for its intended purpose
    b. Notifying that individual or group that a gift has been received and that the gift is available for them to spend, and relaying specific information about the intended purpose
    c. Notifying that individual or group of the requirement to document when and how the gift was spent for its intended purpose, and the time frame to complete and document that expenditure
    d. Ensuring that appropriate supporting documentation is returned within the specified timeframe

C. Single-use, non-material gifts are credited to the Department General Fund. The designated fund administrator receives timely notification of each gift, including the amount, the specific purpose, and any other requirements:

   a. The above is accommodated through the creation of an automated nightly, weekly, or monthly report of all gifts credited to this fund. During gift entry, the specific donor spending requirements are entered on the comment line of the gift which is captured and printed on the automated nightly, weekly, or monthly report
   b. In those instances when the comment line is insufficient to provide necessary details, a notation of "See Scanned Backup" is included, alerting the fund administrator to log into the institutional document management system and review the donor instructions. Absent a best practice document management system, the fund administrator is sent the backup material electronically

D. Typically, the above is all that is necessary to track individual gifts. However, some institutions will employ additional automated or semi-automated tracking methods to distinguishing between donated funds:

   a. Utilization of the accounting system's sub-account feature (if one exists) to further allocate the gift – note that this does not require any additional action on the part of the philanthropy department – this is purely a fund administrator determination
   b. Utilization of the accounting system's attribute feature (if one exists) to further allocate the gift – note that this does not require any additional action on the part of the philanthropy department – this is purely a fund administrator determination
   c. Utilization of a sub-ledger resource to track gifts. For example, at Duke University prior to the acquisition of a new GL, we used Microsoft Money in this capacity for gifts of $50,000+. A similar product like Quicken/QuickBooks would work just as well – although the preference would be to use existing sub-accounts/attributes to minimize manual entry

E. Using the accountability reporting tool mentioned in paragraph B above, the fund administrator provides a monthly report back to the philanthropy office reflecting the individual gifts received, commentary on how the gift was spent, and noting any remaining balance. The latter is useful in stewarding the donor and in discussions regarding how to direct/redirect any unspent funds. An example report I have previously used is attached, although most accounting systems and sub-ledgers can generate a suitable report automatically.

While the foregoing establishes procedural responsibilities in the office processing gifts and the departments those gifts benefit, this does not reduce or eliminate finance/business office authority over all financial transactions for the organization. That office must ultimately ensure that all funds received are properly spent – or invested – and that sufficient documentation exists to support those actions.

FYXX Department General Fund Accountability Report	
Unit Name:	
Donor Name - Specific Gift Purpose - Date of Gift	Amount Received
Expense Description	Amount Expended
Expense Description	Amount Expended
Expense Description	Amount Expended
Expense Description	Amount Expended
Remaining Balance:	
Donor Name - Specific Gift Purpose - Date of Gift	Amount Received
Expense Description	Amount Expended
Expense Description	Amount Expended
Expense Description	Amount Expended
Expense Description	Amount Expended
Remaining Balance:	
Donor Name - Specific Gift Purpose - Date of Gift	Amount Received
Expense Description	Amount Expended
Expense Description	Amount Expended
Expense Description	Amount Expended
Expense Description	Amount Expended
Remaining Balance:	
Donor Name - Specific Gift Purpose - Date of Gift	Amount Received
Expense Description	Amount Expended
Expense Description	Amount Expended
Expense Description	Amount Expended
Expense Description	Amount Expended
Remaining Balance:	
Donor Name - Specific Gift Purpose - Date of Gift	Amount Received
Expense Description	Amount Expended
Expense Description	Amount Expended
Expense Description	Amount Expended
Expense Description	Amount Expended
Remaining Balance:	