

# Diploma in Financial Management & Accountability

*- a joint initiative of TISS & FMSF*

## Course Material



Project Fund Accounting  
Paper - V

Module - III  
Faculty - Sanjay Patra

## **UNIT -7. ENDOWMENT FUND**

### **Key objectives:**

- To understand the concept of Endowment funds
- To understand the basic difference between Term, Restricted and Designated Endowment Funds.

### **7.1 INTRODUCTION**

An endowment fund, hereinafter referred to as EF, is similar to a corpus fund but it comes with the restriction of certain specific purposes. For example, a donor may create an endowment for the maintenance of a monument of historical or religious importance. The income from the endowment so created would go towards the maintenance of the said monuments. The EF so created may be permanent and perpetually available to the trustee organisation like a corpus but the use of its income is restricted for a specific purpose. Therefore, it can be seen that unlike corpus fund an EF is a restricted long term fund.

### **7.2 ENDOWMENT FUND**

These funds account for resources that may not be expended currently. The principal of this fund may be preserved. The income out of this fund is usually available either for a restricted or for a general purpose. The EF obtains resources from gifts, investment income and appreciation of principal and transfers from other funds, if any. Incomes from these funds usually are transferred to another fund where it may be expended. Decreases in fund balance occur from the termination of endowments and also from the

transmission of endowments resources to other funds in accordance with endowment agreements.

Interest revenue out of such fund is accrued at the end of accounting year. The fund is usually invested in some securities and such investment is valued at cost price. If the income out of such investment is available for unrestricted purposes, it is recognised in the unrestricted fund. On the other hand, if the income is to be used for some specific purpose, it is transferred to that specific fund.

The only time, the investment income is recognised in the EF is if the terms of agreement specify that the income must be added to the endowment principal. There may be two types of endowments-perpetual endowment and term endowment. In the first case, such endowments are given in perpetuity and the fund principal is never spent or repaid. Term endowments are gifts for which the donor has specified a date or event after which the funds may be spent.

### **7.3 TERM ENDOWMENT FUND**

A term endowment fund is similar to an endowment fund apart from the fact that it is not perpetual and expires after a specific time period or event. For example, a donor may identify 50 slum children and create an endowment for their education. The income from the fund may be used for the education of the children for a period of, say, 10-15 years. After the expiry of the endowment period, the donor may specify the residual use of such funds. For instance, it may go to the corpus or general fund of the organisation or the donor may specify the distribution of the fund amongst the 50 beneficiaries.

In the above example the endowment is for a specific period, which can be related to a future event. The endowment fund may expire on the completion of certain educational degree or on the completion of certain age of the beneficiaries. For all other practical purposes, a 'term endowment' and an endowment are similar in nature, barring the fact that a term endowment fund expires on the happening of a definite future event or at the expiry of a

definite period. Other endowments are open-ended without any time limitation clause.

#### **7.4 RESTRICTED ENDOWMENT FUND**

An endowment is termed as '*restricted endowment fund*', hereinafter referred to as REF, when the source is external in nature. If an endowment is created out of donors contribution as per the conditions and limitations attached by the donor then the EF so created is restricted in nature. Such EF may be for a fixed period or perpetual in nature. A REF is distinguished from other endowment funds on the basis of the source of the funds. The distinction is technical in nature but for all procedural purposes it is similar to other endowment funds. However, it may be noted that a REF cannot be revoked under any circumstances as the restrictions come from an external source. But a designated endowment fund may be revoked by the general body or the board provided the constitution and the bye-laws permit such a revocation.

#### **7.5 DESIGNATED ENDOWMENT FUND**

When an EF is created out of internal accruals and unconditional voluntary contributions received, it is known as Designated Endowment Fund, hereinafter referred to as DEF. The board of an organisation may designate certain funds for long term activities. The EF so created may be for a fixed period or perpetual in nature. A DEF is a discretionary long term fund created by the board/trustees of the organisation. Such funds are bound by the norms and regulations approved by the board. Generally such funds are also permanent and not available for the general activities of the organisation. But since the designation is created by the NGO itself, therefore there is a legal possibility of revocation of such designation. But in a Restricted Fund such revocation is not possible under any circumstances unless permitted by the respective donor.

**Self- Assessment Exercises**

1. What does 'Endowment Fund' mean?
2. How is endowment fund different from corpus fund?
3. What are the two types of endowments?
4. What is Term endowment fund?
5. What is the difference between restricted endowment fund and other endowment funds?
6. What do you understand by designated endowment fund