MANAGING CONTRIBUTIONS

CONTRIBUTION TYPES

Unrestricted

Unrestricted donations may be used for any purpose at the discretion of an affiliate, including its general operating expenses or specific needs such as scholarships. Unrestricted contributions are the best way for an affiliate to raise money because it gives affiliate administrators and board members the flexibility needed to fund all aspects of the program. It is important to be transparent when asking for gifts – money raised for the “general fund” should be noted as such in the acknowledgment letter.

Restricted

Donors may designate or "restrict" the use of their donations to a particular purpose or project.

If money is raised for a specific purpose, (e.g., scholarships), it should be considered “restricted.” A donor can also specify if a donation is restricted or not – through a letter from the donor or through an explicit donor agreement.

Gifts from foundations or specific grants are usually restricted to a program or purpose and may require specific accounting and reporting. Typically, the details of required reporting and restrictions are laid out in the documentation accompanying the gift.

Restricted funds should be accounted for separately, as they may not be used for any other purpose.

Restricted gifts fall into two categories, temporarily restricted and permanently restricted.

Temporarily Restricted

Donors sometimes impose time-limited or purpose restrictions. Time-restricted means that the donation can be used for a particular purpose for a specified period. A purpose restricted donation is for a specific program or campaign (such as scholarships).

When the time is up, or the project is completed, the funds become unrestricted or stopped. Examples include a grant, graduation of a scholarship recipient, or the completion of a building project.

Permanently Restricted

Permanently restricted funds never expire. Usually, this means that the charity invests the gift and then uses the interest and investment returns in perpetuity. Permanently restricted funds often go into an endowment that supports a activity or the organization in general.

Whatever type of restricted fund is set up, the nonprofit must keep track of it and report it appropriately in its financial statements. Consult the Generally Accepted Accounting Principles (GAAP) issued by the Financial Accounting Standards Board (FASB) for detailed information.

It is a good idea to revisit any restricted funds on your books. If many years have passed, the goals of the organization have changed, or the fund is no longer relevant, the fund should be reviewed and confirmed.

In-kind Contributions

In-kind contributions can be in the form of either goods or services. The affiliate should not place a value on such contributions, even if the donor indicates the amount. It is up to the donor to report to the IRS the value of the donation.

If a donor contributes goods for some type of ACE activity, the affiliate should use the following type of acknowledgement: "Thank you for contributing [identify the goods as specifically as possible, for example 10 BIM software packages] that [Affiliate Name] received on [date] and used in its [name activity or event]. No goods or services were provided in exchange for your contribution."

If an affiliate receives in-kind services – for example, website design, printing, legal services, etc. – that it normally would have to pay for but are receiving *pro bono*, use a similar acknowledgment as in the preceding paragraph.

Tracking Contributions

All donation or contributions should be tracked in a reliable system. Any single contribution of $250 or more must be listed separately. If the donation is other than cash, describe the property but do not indicate a value.

It is a very good idea to consider using a donor software package such as Bloomerang. The software will assist in tracking your donors, contributions and follow up. For more details, please refer to the Fundraising section.

Acknowledgments

As a matter of courtesy as well as for tax purposes, an affiliate should promptly send a letter of acknowledgement and thanks to each donor or contributor. Such a letter can also be an effective way to keep contributors up to date on an affiliate's accomplishments and demonstrate the impact of their support. The IRS allows acknowledgments to be sent either in hard copy or by email.

A letter thanking a contributor must contain a statement describing the contribution and how it can be treated for tax purposes. For a examples of an acknowledgement letters, please go to the Fundraising Chapter.

Reserves

Cash reserves (that is, cash on hand or, more formally, operating reserves) are critical for an affiliate's long-term financial stability. Most experts recommend maintaining enough reserves to cover six months of operating expenses. All affiliates should have an absolute bare minimum of one month's reserves.

As a target, affiliates should set a goal of a reserve fund minimum equal to three months of average operating expenses. The calculation of average monthly operating costs includes all recurring, predictable expenses as discussed in the budgeting chapter. At the end of the fiscal year, any surplus unrestricted operating funds should be allocated to the operating reserve.

Resources are extra cash that are not restricted. Scholarship funds are restricted.