

# AccountAble

## Corpus Fund

Following points should be kept in mind when creating a corpus:

- As there appears to be no law dealing directly with this, common law or derived law would apply. Indian Contract Act would be relevant in this matter.
- A Corpus should be created with specific consent of the donor. This would not apply if the donor has not attached any conditions to use of funds. For instance, a grant from Funding Agency can not be used to create a Corpus without Funding Agency's specific consent. However, a donation from an individual can be used to create a corpus, unless the donor had stipulated a specific use for the donation ("Please use this money to provide education to children of my native village, Jalalpur.")
- Donations under 80G can be used to create a corpus.
- Donations under section 35AC can also be used for a corpus, if the National Committee has approved the Corpus specifically.

Before deciding on a Corpus grant, the organization should take a very hard look at the objective and need for creating the Corpus. If the organization creating the corpus does not have a mature and stable Board, it may not be a good idea to go in for a corpus. The benefits of a corpus may be outweighed by the attendant risks. This is especially true in the Indian context where civil law and regulatory authorities are comparatively ineffective.

### Inside...

<i>Seven Steps to a Corpus</i>	2
<i>Control Mechanism</i>	3
<i>Income Tax Implications</i>	3

Corpus and Endowments are two financial mechanisms to ensure long-term survival of an organizations.

However, a large corpus may also invite questions from



donors and public. In the long run, an unprotected corpus may also attract undesirable people.

Here we address these two issues: one, how big should the corpus be? and two, how to ensure that it is properly protected.

Additionally, some income tax implications are also explained.

## Endowments

Legally, an Endowment Fund is similar to a Corpus. The differences are only with respect to use of income from the Endowment Fund.

An Endowment Fund is created under specific direction from the Donor. Income from the Endowment Fund can be used only for the purposes specified by the Donor.

### Accounting for Endowments

Accounting for Endowment Fund is different from a Corpus. It should be segregated from other Revenue Grants and taken directly to the Balance Sheet. The Fund should be identified separately in the Balance Sheet<sup>1</sup>. Assets which represent the Endowment Fund (investments, bank balance etc.) should be either shown separately<sup>2</sup> or should be identified by a note. The market value of the investments should also be disclosed by a note.

### Endowment Income

Income from the Endowment Fund investments should be shown separately as a line item<sup>3</sup> in the Income & Expenditure Account.

Total Expenses incurred out of such income should be disclosed by a note<sup>4</sup> along with purpose of expenditure.

With regard to control mechanism and calculations, considerations similar to the Corpus would apply.

<sup>1</sup> Such as 'CRY Endowment Fund'

<sup>2</sup> Such as 'CRY Endowment Assets'

<sup>3</sup> Such as 'Income from CRY Endowment Investments'

<sup>4</sup> Such as 'During 93-94, Rs.1,22,030 were spent out of CRY Endowment Income for core expenditure related to Machhera office.'

Step 1: Calculate Annual Core Expenses		
Item	Per Month	Annual Amount
<b>Core Staff Salaries:</b>		
1.		
2.		
3.		
Local Conveyance		
General Travel		
Stationery		
Books & Periodicals		
Telephone		
Postage		
Repairs & Maintenance		
Electricity & Water		
Main Office Rent		
Miscellaneous Expenses		
<b>Contingency</b>		
<b>Total Expenses (say)</b>		105,000

Step 2: Calculate Annual Assured Income		
Item	Per Month	Annual Amount
Seminar Fees		
Donations		
Resource Hiring charges		
Savings Bank Interest		
Membership Dues		
<b>Total Income (say)</b>		15,000

Step 3: Calculate Net Requirement	
Expenses (Step 1)	105,000
Less: Income (Step 2)	15,000
<b>Net Requirement</b>	90,000

Step 4: Tabulate Expected Return on Investments		
Type of Investment	Purchase Cost	Annual Return
Fixed Deposits		
Units with UTI		
IDBI bonds		
Govt. Securities		
Mutual Funds		
Others		
<b>Total (say)</b>	1000,000	123,000

### Seven Steps to a Corpus

- 1 First we need to find out the amount that would be required annually to maintain the core program, staff and facilities.
- 2 Next calculate the annual assured income you are likely to enjoy. *Ignore any investment income related to other endowments or to existing corpus investments.*
- 3 Deduct the annual assured income from the annual core expenses.
- 4 Work out how much return you are likely to get on your future corpus investments. This will vary depending on your 'mix' of investments.
- 5 Work out the percentage rate of return.
- 6 The net amount is divided by expected rate of return on investments.
- 7 This gives the total size of the Corpus. Any existing Corpus or General Funds would be deducted from this to arrive at the net amount required for Corpus.

Step 5: Calculate Rate of Return	
Annual Return : 1,23,000	$\div$ X 100 = Rate of Return: 12.3%
Purchase Cost: 10,00,000	

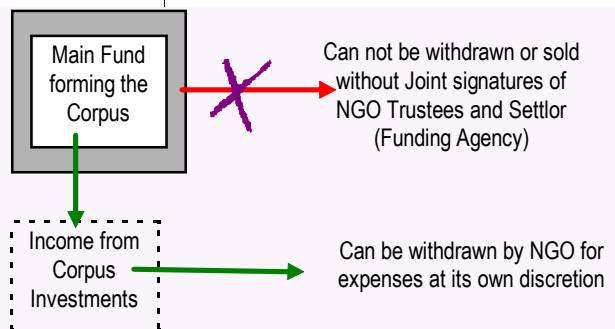
Step 6: Calculate Size of Total Corpus	
Net Requirement : 90,000	$\div$ X 100 = Corpus: 7,31,707
Rate of Return: 12.3	

Step 7: Calculate Additional Corpus	
<b>Total Corpus (Step 6)</b>	731,707
<b>Less: Present Corpus (as per Balance Sheet)</b>	58,000
<b>Additional Corpus required</b>	673,707

## Control Mechanism

When a corpus or endowment is to be created, the Funding Agency and the Organization creating the Corpus would together develop special control mechanisms:

- Strict legal documentation should be created so that the desired objective is fulfilled and funds can not be diverted even after change of trustees.
- One popular way is to tie up the



Main Funds so that these can not be withdrawn -- the Society is able to access only the earnings on the Corpus investments for its expenses. For this purpose, the Main Fund may be kept in a separate Bank Account or in Investments which can not be sold or divested without the Funding Agency and the Society both signing the release or transfer papers.

Corpus would appear on the Liabilities side of the Balance Sheet as "General Fund" or "Trust Fund". Practically, it is a liability of the Trust or Society to itself. On the Assets side, it may be represented by Fixed Assets, Investments, Currency, Bank Balances or Recoverables.

## Income Tax Implications

If a donor instructs the NGO that the donation or Grant will form part of the Corpus of the Trust, then such grant is absolutely exempt from tax under section 11(1)(d). You should therefore get a letter from the Donor to this effect. However, the trust (or Society) should be registered under Section 12A.

### Permitted Investments

The funds can be invested only in specific securities. For example, you can not invest in shares of public companies, in commodities (or in gold bricks!). Presently following investments are permitted under Income Tax Act:

- Government Savings Certificates
- Post Office Savings Bank Accounts
- Accounts (whether fixed or savings) with any Scheduled<sup>1</sup> Bank or any co-operative bank
- Central or State Government Securities
- Shares or Deposit with any *Public Sector* company
- Land, buildings or other immovable property
- Deposits or Bonds of approved Industrial Financing Corporations
- Deposits or bonds of approved Housing Loan companies
- Deposits etc. with IDBI, other prescribed investments (units of Mutual Fund; deposit to Public Account of India)
- Mutual Funds registered with SEBI

However, local laws (such as Bombay Public Trust Act) may specify other investments. You will need to work out a common list of permitted investments for your state before investing<sup>2</sup>.

<sup>1</sup> Almost all large banks are scheduled banks. However, it is better to confirm with the concerned bank.

<sup>2</sup> Please confirm with your auditors / advisors before investing

