Section IV: Non-profit Issues

Many for-profit accounting and financial management principles apply to not-for-profit organisations as well. However, there are some issues which call for a special treatment when these principles are applied to not-for-profit activities. Budgeting is one such issue. NGOs in India often have to prepare and submit project or grant budgets to their grant-making agencies. Ways to make these budgets more useful and self-explanatory are discussed here.

We also discuss valuation and accounting procedures for contribution in kind, i.e. when you receive material or services instead of money. The Income Tax Act in India does not allow a deduction for these to the donor. As a result, this has remained a relatively neglected area.

Accounting and control issues related to credit-based revolving funds are also covered in this section. FCRA implications of this activity are also discussed in detail here.

Lastly we deal with an emerging subject: corpus and endowments. The chapter on corpus discusses the concept of corpus, talks about legal and accounting requirements related to investing such funds and finally, explains how to estimate the size of a corpus or endowment fund.

Grant Budgets[1]

Budgets are sensitive documents. The Government of India takes extraordinary precautions to ensure that budgets are not leaked before the Big Day. People are locked up in their offices. Armed guards are posted. But once the Finance Minister lets the cat out of his bag, the circus starts. There are speeches, analyses, accusations, clarifications...

The NGO budgeting process is simpler. A Budget is treated with the contempt it deserves till approved.

If it is approved, it will be locked up in the Director's safe for one year to ensure complete [lack of] transparency. It will be taken out when the Final Report is to be prepared for the Agency. By then it is too late...

Budget means an estimate of the amount of money to be received and to be spent for various purposes in a given time. The word 'budget[2]' was first used in a financial sense in 1764. Let us see if we can do something to restore the Dignity of Budgeting.

What is a Budget

Different things to Different People

You can view Grant Budgets (or budgets in short) from different perspectives:

In the Funding Agency:

- **Jack-the-Ripper View:** Budget is Something that needs a lot of cutting and slashing
- **Managerial View:** Budget is the Means to getting rid of our funds.
- **Philosophical View:** Budget is a Meaningless Mass of jumbled figures.
- **The Sadistic Auditor's View:** Budget is a Delightful Mechanism to inflict intolerable torture on the NGO for the unpardonable sin of working in an inaccessible region by pointing out inevitable variances.
- **Technocratic View:** Budget is a means of allocating scarce resources to achieve meaningful results with Maximum Efficiency.

At the NGO:

- **The Scriptural View:** Budget is a Holy Document.
- **The *Tantric* View:** Budget is a Mystical Mantra, which will lead to everlasting peace, harmony and an endless flow of funds.
- **The George Bush View:** Budgets are Missiles fired with monotonous regularity to scare the Agency into releasing funds.
- **The Consultant's Confusing View:** Budgets are Action Plans resulting from a participatory process with the people and the program team.
- **The Creative Accountant's View:** Budget is a means of Writing Account Books without vouchers.

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[1] Based on AccountAble 37: Grant Budgets

[2] It originally came from the French word *bougette* which means bag or pouch (15th Century).

Side Effects of a Budget

Whatever a budget may be, everyone agrees that it is a most desirable thing to have. But like all desirable things, it can create problems also. Biggest problems come up at the end of the year or during evaluation.

When you agree to a budget, you often think of only the total figure. But the total figure is made up of many smaller sub-totals. Each sub-total itself is made up of smaller line items.

Therefore, when you agree to the budget, you are also agreeing to the line items. The line items are based on some calculations (for example, 10 teachers x Rs.800 p.m. x 12 months = Rs.96,000).

Now suppose, at the end of the year, if your accounts show payment to 8 teachers @ Rs.1,000 per month. Don't you think an auditor or evaluator is going to comment on that?

Why does this happen?

There may be several reasons:

1. A budget means looking into the future. There are bound to be some variations.
2. The budget was not prepared or finalised carefully. We concentrated only on getting the total figure right.
3. The program coordinator did not get a copy of the budget. He/ she planned only for 8 teachers.
4. The Accountant did not have a copy either and did not object to payment @ Rs.1,000 p.m.

You can't really do anything about the first. Let's see how the others can be taken care of.

Towards clearer budgets

There are many ways to make budgets. Some need one line and others need several reams of paper. Even so, there are ways we can make clearer and more useful budgets.

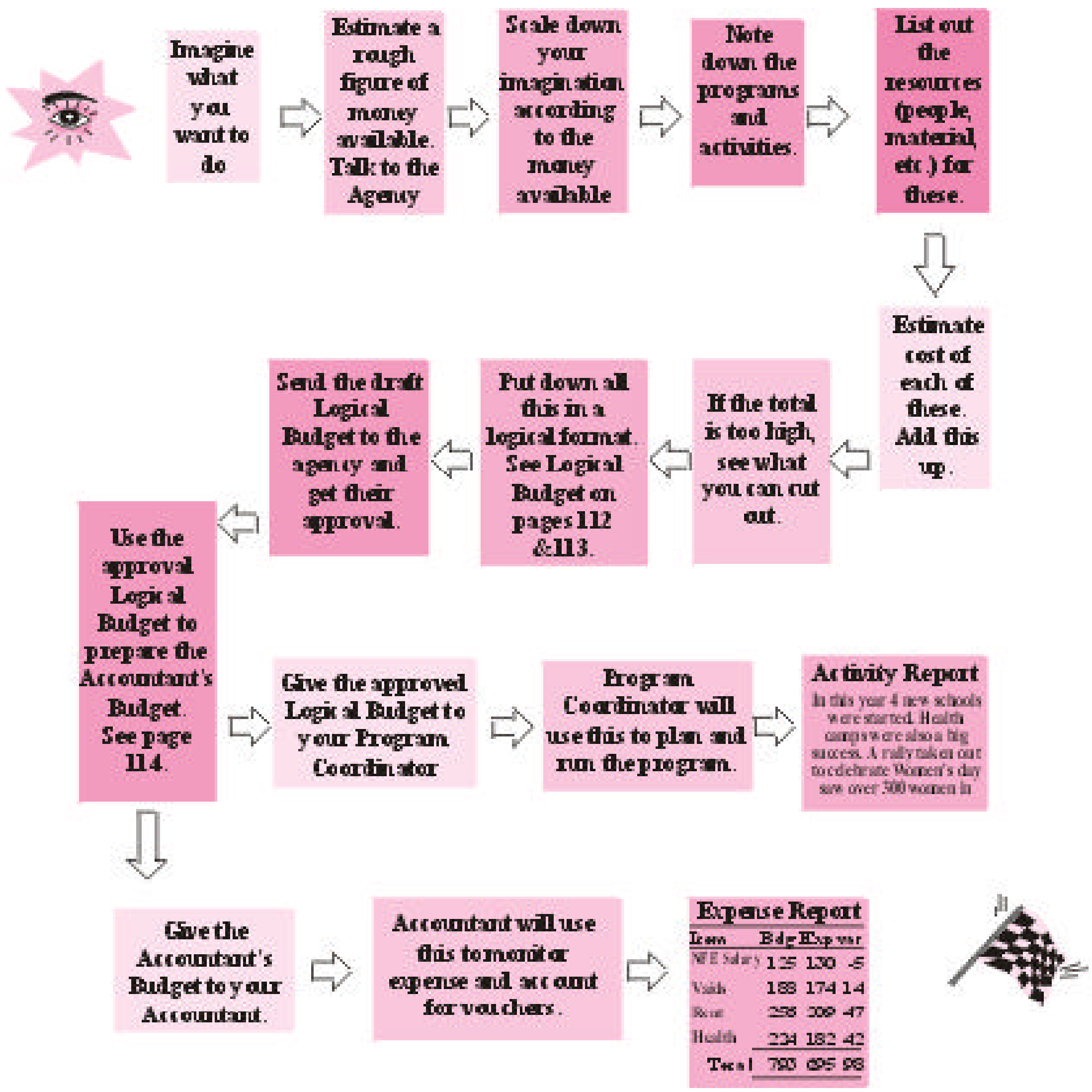
Vision: You start with a vision. This vision will help focus your discussions. Talk to the people and your team. They will help you understand what is practical and what is not.

You may want to do a lot of things. But resources (money, material, time) are always limited. Get a rough idea of how much resources you can collect. Talk to the concerned Agency. What is the point in preparing a budget for 16 lakhs when the Agency has only 3 lakhs?

Detailing the activities is very important. This will help you make better calculations. Present your plan to the Agency so that it all hangs together. One such format is given on pages 112-113 under 'The Logical Budget'.

Once the budget is approved, give copies to the Program team and the Accountant (see under 'The Accountant's Budget' on page 114). It will not only help your program, your reporting problems will also reduce.

The flow chart towards clearer budget is presented below:



The Logical Budget

The Logical Budget helps show the logic or necessity for each activity. This budget starts with the program activity and ends up with an amount. In the logical budget, you should try to be as specific as possible. Avoid general statements like 'upliftment of the poor', 'hundreds of villagers'. Possible headings for this budget are given in next page:

	Name of the program or program compo-nent	Yoy may have many items or activities under each program. Give the logic or necessity or rationale for each se[redacted]ately.	How many persons / households will benefit directly. Be as specific as possible.		Give name of villages. If the school will run in the Commu[redacted] cente[redacted] say s[redacted]	Give number of days / months (under this bud[redacted]	De-scribe the line item	Show how the amount was calcu-lated	Show the amount for each line item here.

Lok Ja[redacted]Manch Bu[redacted]t for 'Education & Health Prog[redacted]' for the [redacted]riod 1[redacted]3 to 31.3

Sl. No.	Na[redacted]e of Program	Specif[redacted] Objectives of this program	Logic / reasoning for each activity/ item	No. of direct benefi ciaries	[redacted]illage / location where the activity will occur	Dura tion of activity	B[redacted]et Line Item Narration	Budget Line Item Calculation	Amount (Rs.)
1	NFE Schools	• To run 12 NFE centers for children from tribal groups. • To give basic literacy, general knowledge to children	For teaching the children. Each teacher will work for six hours. One teacher for each school. Senior teachers are paid more.	150 girls; 170 boys	1. Jasidih 2. Haldia 3. Parsidiha 4. Jajori 5. Terahawi 6. Koldiha 7. Jalalpur 8. Khapatia	12 months	Salary to 8 Senior teachers	Rs.1000 x 8 teachers x 12 mths	96,000
2	NFE Schools	As above	As above	60 girls; 80 boys	1. Chakrata 2. Khekda 3. Jewar 4. Korwani	12 months	Salary to 4 new teachers	Rs.850 x 4 tchrs. x 12 mths.	40,800
3	NFE Schools	As above	Needed so that can explain more clearly and show pictures, etc.	210 girls; 250 boys	Above 12 villages	Over 12 months	Teaching resource material (Black-board, charts, etc.)	Rs.500 x 12 NFE centers	6,000
4	NFE Schools	• Increase cross-community linkages • Increase competitive spirit	As Bal mela will run from 10 a.m. to 4 p.m., lunch will be provided to children and organisers.	210 girls; 250 boys	At community land in Jajori	1 day	Food etc. for Bal Mela	Rs.20 x (450 children + 12 teachers + 10 others)	9,440
5	NFE Schools	As above	Transportation for cooking material, etc. Prizes will be given to children.	210 girls; 250 boys	At above	1 day	Transport, stage, prizes for Bal Mela	Rs.4,000 lump sum	4,000
	NFE						**Sub-Total**		**156,240**
6	Health	1. Provide basic medical support to people 2. Encourage use of herbs and naturopathy	PHCs do not exist / work in the region. Private medical treatment is inaccessible / expensive.	50 persons x 3 times x 6 villages	1. Jasidih 2. Haldia 3. Parsidiha 4. Jajori 5. Jalalpur 6. Khapatia	12 months	Stipend to 8 *Vaids*	Rs.1000 x 8 *vaids* x 12 mths.	96,000

Sl. No.	Name of Program	Specific Objectives of this program	Logic / reasoning for each activity/ item	No. of direct beneficiaries	Village / location where the activity will occur	Duration of activity	Budget Line Item Narration	Budget Line Item Calculation	Amount (Rs.)
7	Health	Prevent spread of diseases such as polio.	Vaccination of children coming to NFE classes and their brothers / sisters.	500 children	All 12 NFE villages	Twice	Jeep for Govt. Doctors	Rs. 450x4 days (3 villages each day) x 2 times	3,600
8	Health	Strengthen basic hygiene and reproductive health.	Health workers will inform and motivate women for personal hygiene, health check-up, nutrition and birth control.	30 women x 6 villages	Above 6 villages	12 months	Salary to 3 Comm-unity Health workers	Rs.500x3 workersx12 months	18,000
	Health						**Sub Total**		**117,600**
9	Admini-stration	Program Coordinator	Project Manager will be responsible for coordination and monitoring of program.	N.A.	Based at Pilakhua office. Will cover all 12 villages	12 months	Project Manager's Salary	Rs. 3,000 x 12 months	36,000
10	Admini-stration	Accountability of Funds	Accountant will maintain accounts and provide Agency reports. Will also handle other accounts.	N.A.	Based at Pilakhua Office	12 months	Salary to Accountant (shared)	Rs. 1,000 x 12 months	12,000
11	Admin	Program and office coordination	Required for correspondence and reports.	N.A.	At Pilakhua Office	12 months	Postage and Stationary	Rs. 300 x 12 months	3,600
12	Admin	Accountability of funds	For providing audit report regarding Agency funds.	N.A.	At Main office	Once a year	Auditor's fees	Rs. 1500 x once	1,500
	Admin						**Sub Total**		**53,100**

Budget Summary	**Rs.**	**%**
NFE	156,240	48
Health	117,600	36
Administration	53,100	16
Total	**326,940**	**100**

The summary and percentages help in under standing the budget

The Accountant’s Budget

Your accountants may find the Logical Budget a little confusing. For them, the same budget can be summarized in a different way. This will help them make proper vouchers and entries. If your accountants are clear about the budget, your reports to the funding agency will be easier to prepare.

If you use a computer to make your budget, this will be very easy. Use a spreadsheet program such as ‘Lotus’ or ‘Excel’ to make your budget. The program will do all the calculations for you. You simply have to type a simple formula such as ‘=1000*8*12’. The program will show ‘96,000’. It will also add up all the figures for you. Once you put your budget in this program, it becomes easy to make changes.

The logical budget shown on previous pages has been re-classified below. See whether your accountant likes this one or the previous one!

Item number of the main budget. Will help in referring back

Combine these to open ledger accounts. For example: 'NFE - Salary to Senior Teacher'

For the account's information

Will help Accountant in checking amounts booked in the Accounts.

Accounting Summary of Lok Jagran Manch Budget for 'Education & Health Program' for period 1.4.98 to 31.3.99

Ref	Account Head	Program	Duration	Calculation	Amount
1	Salary to Senior Teachers	NFE	12 months	Rs.1000 x 8 teachers	96,000
2	Salary to new teachers	NFE	12 months	Rs.850 x 4 teachers	40,800
6	Stipend to vaids	Health	12 months	Rs.1000 x 8 *vaids*	96,000
8	Salary to C.H.Ws	Health	12 months	Rs.500 x 3 workers	18,000
9	Salary to Project Manager	Admin.	12 months	Rs.3,000	36,000
10	Salary to Accountant (shared)	Admin.	12 months	Rs.1,000	12,000
	Salary			**Sub Total**	**298,800**
3	Teaching resource material	NFE	Over the year	Rs. 500 x 12 NFE centers	6,000
4	Bal Mela Food	NFE	Once	Rs.20 x(450 children + 12 teachers + 10 others)	9,440
11	Postage & Stationery	Admin.	Over the year	Rs.300 x 12 months	3,600
	Materials			**Sub Total**	**19,040**
7	Jeep for Govt. Doctors	Health	2 times	Rs.450 x 4 days (3 villages each day) x 2 times	3,600
5	Bal Mela Transport, stage, prizes	NFE	Once	Rs.4,000 lump sum	4,000
	Conveyance			**Sub Total**	**7,600**
12	Audit Fees	Admin.	Once	Rs.1,500 x once	1,500
	Fees			**Sub Total**	**1,500**

Summary	Rs.
Salary	298,800
Materials	19,040
Conveyance	7,600
Fees	1,500
Total	**326,940**

Forget me nots...

When making a budget, don't forget the following:

- **Inflation:** When you are giving a budget for the first time to an agency, they may take a long time to evaluate and approve your budget. By the time it is approved, your estimated rates will become useless. Renegotiate the budget at the approval stage.

  When budgeting for one year, remember that prices will go up gradually over the year (approximately 10% each year). When budgeting for more than one year, provide for next year's inflation also.

- **Salaries:** Salaries rise because of inflation. But they also rise due to increased experience. Budget extra amounts (5% or so) for salary, over and above the inflation.

- **Accountant's Salary:** Ask for some share of the Accountant's salary in each budget. Each agency that gives funds and expects accountability, should bear some proportion of the accountant's salary.

- **Audit Fees:** Don't forget the auditors either. Their fees will rise when your work increases.

- **Basis of Calculation:** Give the basis of calculation of each and every line item. Where it is a lump sum, say so.

- **How much can you grow:** When you prepare a budget, keep both your feet firmly planted on the ground. Overall growth beyond 30% a year will give you headaches. Quality of your work may suffer.

- **Local Contribution:** Don't give in too easily on this just because the agency insists on this. Assess how much can you really raise in cash? How much in labour? How much in materials?

- **Name of Organisation:** Put the name of your organisation on top of each of the budget sheets. That way these will not get mixed with others. Also put the name of the program if possible.

- **Budget Period:** Sheets from different years get mixed up very easily over a period. Give the budget period at the bottom of each sheet.

- **Revision Date:** Often you may have to revise your budget several times. Type the revision date at the bottom of each sheet every time. Give this date the first time also.

- **Final Budget:** With so many budgets floating around, it's a good idea to mark the final approved budget clearly as 'Final Budget; Approved on _____'.

Contribution in Kind[3]

Many NGOs, including funding agencies, receive a large amount of donations or support in the form of goods or services. These are seldom accounted. How can we value and account for these in our books?

Donated Goods or services: Headache for Accountants!

In cash or in Kind

Suppose you are building a school for the village. The villagers agree to donate some money and materials. They also agree to put in some labour as *shramdaan*[4]. You issue receipts for whatever money is raised. But the value of labour and materials given by the community is much more. This is sometimes known as 'Contribution in Kind'. Should you account for this also?

If you do not account for these goods and services, the following happens:

- Your accounts show a lower value of the school building - which is not the real value;
- The community's economic participation is not reflected in your Income and Expenditure Account or ledger books.
- In the long run, it becomes difficult to have proper internal control over goods received from the community. This may lead to pilferage or wastage.

Contribution in Kind occurs in many forms. Just a few examples are:

- Lunch provided by villagers during a community function;
- One day's free labour in digging a pond or well;
- Allowing free use of tractor-trolley for carrying stone, etc.;
- Free saplings during tree plantation;
- Allowing free use of personal shed for school / meetings.

Most field level NGOs are not accounting for these. In some cases, they show receipt of money when actually they have received items or services. Then they show payments out of this money – which had not been received to begin with! This kind of transaction results in questions and doubt.

There is another way to account for these properly. This involves passing entries for the items or services actually received. This is internationally accepted and will solve a lot of problems faced in reflecting 'local contribution'. Many funding agencies insist that there should be some local contribution in any project budget. Accounting for these materials or services will also make it easier for you to demonstrate the economic value of local contribution.

If you decide to account for local contribution in kind, you will need answers to the following questions:

1. How to estimate the money value of the material or services received;
2. What kind of vouchers/ receipts will be needed;
3. How to pass accounting entries;
4. What kind of disclosure to make in Final Accounts.

[3] Based on AccountAble 30: Contribution in Kind
[4] Literally donation of labour or services

Apart from this, you may wish to keep simple stock records (or value un-utilised contribution at the year-end as stock-in-hand). However, we this paper deal~~s~~ only with the four questions listed above.

Estimating Values

The main problem with 'Contribution in Kind' is estimating its value. Accountants are comfortable with clear-cut money figures. Estimating the value of goods or services is likely to give them a headache or a nightmare. Some practical suggestions are given below:

- Account only for large value items/ services. For example, it will be difficult to pass an entry every time a person donates ten nails worth Rs.5.
- Account only for those items/ services which have a ready market value. It will be difficult to estimate the value of customary hospitality or sleeping space in the village at night.
- Have a clear basis for valuing the items/ services. Show this basis on the voucher also.
- Do not account for items/ services where there may be serious dispute about estimating the value.

Lower Wages

Often the villagers agree to work for lower wages per day. For example, for deepening a village pond, they may agree to work at Rs.20 per day. The local contractor may be paying Rs.25 per day for road-repair. Can we say here that Rs.5 per day is the community contribution? It can be argued that the villagers may have agreed to accept lower wages because they feel motivated to work for the village.

However, it can also be argued that the villagers may have agreed to work for lower wages because, they will not have to walk far to road-repair site. Or they may have accepted lower wages because they will get regular work. Or they may think that deepening a pond is easier than repairing a road.

It can be seen that this is not a clear case of 'Contribution in Kind'. Accounting for Rs.5 per day as 'Local Contribution' will give rise to such doubts and arguments. Therefore it would be best not to account for this. Some other cases are illustrated below:

Free item/ service	How to value
1. Manual Labour/ *Shramdaan*	At local wage rate per day
2. Wheat/ rice/ seed	At local market price
3. Lunch for participants	At the local meal price at a shop
4. Bricks, stone, old wood, bamboos	At local market price
5. Use of tractor trolley (without diesel)	At local hire charges for tractor trolley
6. Use of bullock cart	At common hire charges
7. Livestock (goats, kid/ calf, pigs, etc.)	At local market price
8. Land	At estimated market value
9. Services of professionals	At normal fees of such person
10. Regular use of room for office	At local rent for similar room
11. Participation in *padyatra*[5]	No market value; do not account

[5] Foot-march

Accounting Entries

Accounting for 'Contribution in Kind' is easy if you use a double entry voucher (*see* The Multi purpose Voucher on page 14).

For the case shown below (Mr. Pawan Rai), you can prepare the voucher shown alongside. Attach one copy of the Acknowledgment to this voucher as support.

If you keep a journal, you can pass this entry through the journal. You will then post all three amounts to the respective account-heads. If your accounts are computerised, then you can use the journal entry facility.

If you do not maintain a journal, you can pass this entry through the cash book also. After making the entry, your cash book will look like the one shown here. These entries can be posted to respective ledger heads in the usual manner.

Account Head	Amount
Dr. School Building	370
Total	**370**
Cr. Cont. in Kind: Items	300
Cr. Cont. in Kind: Services	70
Total	**370**

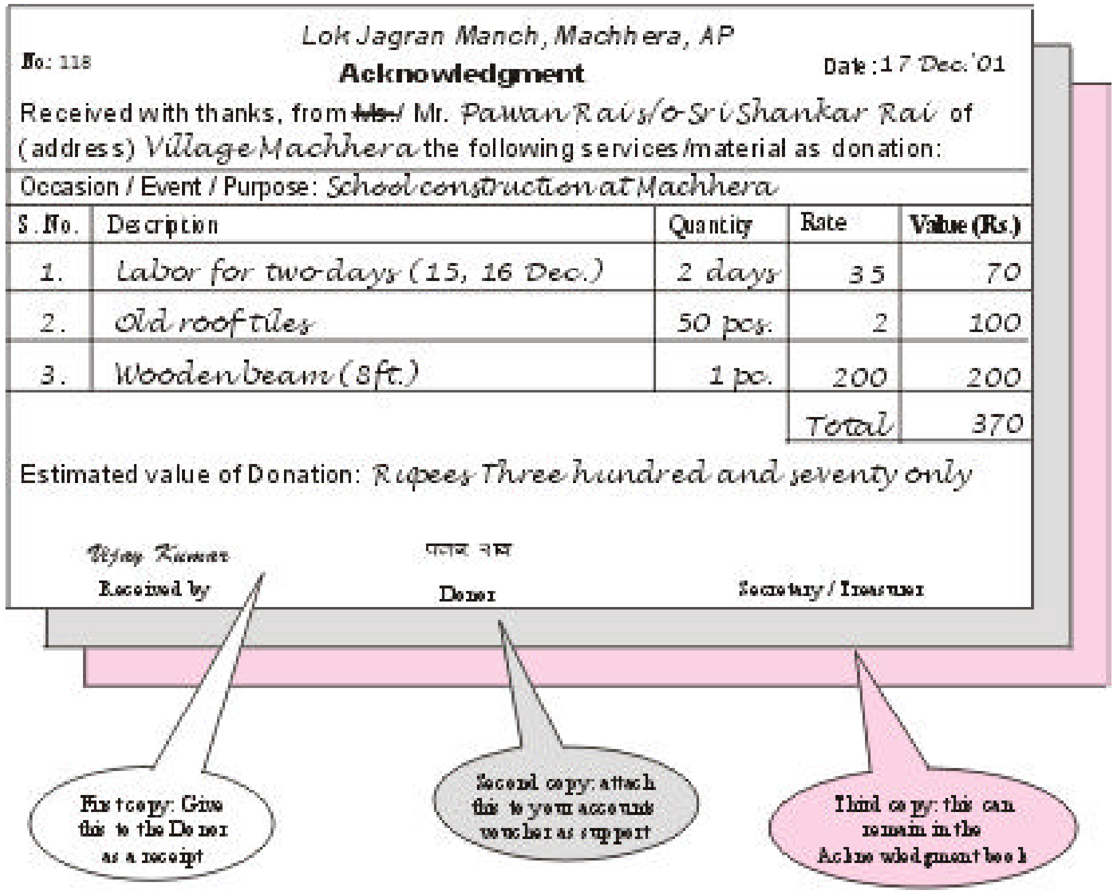
Receipts			**Cash Book**		**Payments**
Date	***Description***	***Amount***	***Date***	***Description***	***Amount***
17.12	Cont. in Kind: Items A/c	300	17.12	School Building A/c	370
17.12	Cont. in Kind: Services A/c	70			

Acknowledgment

You will also need an Acknowledgment form (see sample on next page). This can be printed and bound like a Cash Receipt book. The Cash Receipt is used for cash / cheques etc. The Acknowledgment form will be used for items/ services. In other respects, it is similar to the Cash Receipt and can be bi-lingual.

It will not be necessary to account for all the acknowledgments which are issued. In some cases, the accountant may find that the amount is too small. Or it may be difficult to value the items (see next page 119). In such cases, a particular acknowledgment may not be valued and accounted. But the reason for this should be recorded on the third copy of the acknowledgment.

The number/ date of the accounting voucher should also be put on the third copy of the acknowledgment. This will help you cross-link the entries and make the auditors' job easier.



Balance Sheet Disclosure

If you account for contribution in kind, then you need to disclose this in your Income and Expenditure Account (see example):

Income and Expenditure Account for year ended 31st March 2002

Expenditure	Amount	Income	Amount
Deepening of Ponds	129,350	Contribution in Kind:	
Teachers' Salaries	87,470	- As Materials	29,360
Training Camps	93,810	- As services	34,450

In addition, you should give the following notes[6] as part of your final audited accounts:

Accounting Policies

Contribution received in Kind, whether items or services, is accounted at estimated values. However, only those materials or services are valued and accounted which are:

- material (large value) in amount;
- which have a ready market and would have been otherwise purchased for money; and,
- which can be valued on a reasonable basis.

[6] Your auditors can help you choose suitable wording for the notes in your case.

Materials or services for which a lower price has been paid are not treated as contribution in kind.

Contribution in Kind

During the year 96-97, items and services worth a total of Rs.63,810 were received as contribution in kind. These were utilized as below:

- Construction of village school sheds Rs.23,250
- Deepening of Ponds Rs.30,360
- Training Camps Rs.10,200

The above have been accounted as expenditure in the Income and Expenditure or as assets in the Balance Sheet, as appropriate.

The above form of disclosure is given as a suggestion. Your auditors can help you choose suitable wording for the notes in your case. For example, the following notes appear in the audited Balance Sheet of an international funding agency:

"Donated Materials & Services

Donated materials and equipment, if material, are reflected as contribution in the accompanying statements at their estimated values on the date of receipt. Donated services, if material, are recorded when the following criteria are met: the services performed are a normal part of the program or supporting services and would otherwise be performed by salaried personnel; the corporation exercises control over the employment and duties of the donors of the services; and the Corporation has a clearly measurable basis for determining the amount. Certain amounts have been reflected in the financial statements for donated services; however, a substantial number of volunteers, for which no amount has been reflected in the accompanying financial statements, have donated significant amounts of their time in furtherance of the Corporation's objectives and program services.

Donated services

During the year ended ______ , 1995, the managers of the Corporation donated two weeks of their time to the Corporation. The value of this donation was $_____ and has been reflected as both contributions and salaries expense in the accompanying statement of functional expenses."

Micro-Credit Revolving Funds[7]

Revolving Fund is a very wide term – it includes funds for purchasing raw material, stocks, running an Income Generation Project as also a credit program. Revolving Funds for running Income Generation Projects are also known as Working Capital.

In this issue, we are concerned mainly with Revolving Funds for credit programs.

What is a Revolving Fund

Running a credit-based Revolving Fund is very similar to managing a Bank. In fact Revolving Funds are created by NGOs mainly to overcome the shortcomings of commercial banks.

A commercial bank raises money by selling shares or accepting deposits. An NGO raises money for Revolving Funds through grants from Funding Agencies.

The bank generally avoids giving out small loans because they find management costs of such loans too high.

An NGO gives loans to people who cannot get loans from banks. These people may be women or men working in small business / trades (micro-enterprise) or they may be small farmers or they may wish to take up goat-herding, pig-rearing, poultry, etc. on a small scale. The loans given may range from Rs.750 to Rs.20,000 or more.

Quite often the loans are given through a small group of 5–30 persons. This helps group formation and improves recovery rate. Some NGOs have extensive paperwork (application forms, photographs, attendance records, pass-books, collection sheets, receipt books, loan agreements), whereas others may simply be satisfied with a thumb-impression on a voucher or a register.

In almost all cases, no security is taken. Some-times these loans are interest-free – in other cases, flat interest (10% of the loan) or annual interest (10-25% per annum) may be charged. The interest helps pay operating costs and protects the Revolving Fund from inflation.

This kind of micro-credit programs have proved highly successful, much to the surprise of traditional bankers. Some of the better known examples are Grameen Bank, Bangladesh; SEWA Bank, Ahmedabad and MYRADA, Bangalore.

FCRA Treatment

If your Revolving Fund has been created out of Foreign Contribution, then you should keep the following in mind:

1) When the loans are given out:

a) When the loans are given out to the people, these should be shown on the Payment side of the FCRA Receipts and Payments Account.

b) The loans given out should not be shown as an expenditure in the Income and Expenditure Account.

c) Whatever amount is given out as loans during the year should be shown as utilization in FC-3 [Table 2, column 10].

d) The loans given to beneficiaries are recoverable and, therefore, an asset for your organisation. These should be shown as assets in the FCRA Balance Sheet.

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[7] Based on AccountAble 24: Micro-Credit Revolving Funds

e) In order to tally the Balance Sheet, a Revolving Fund Account should be created on the Liabilities side of the Balance Sheet. This account would show the original amount of grant received for the Revolving Fund.

2) When the loans are recovered:

a) Loan recoveries should be deposited in organisation's FCRA Bank Account as per FCRA requirements. However, some people prefer depositing the recoveries in a separate bank account for better control over revolving fund.

b) Show these as receipt in the Receipts and Payments Account.

c) Also show these as receipt in FC-3 [table 2, row 10[8], column 7]. The amount should also be included under table 4, sub-head (iii) 'Individual donors below 1 lakh'. The amount should also be reported in the country analysis (table 5) as receipts from 'India'.

d) Show the total recovery in the Balance Sheet on the Assets side.

FCRA Balance Sheet (partial) of Lok Jagran Manch as at 31-March 2002

Liabilities		Assets	
Revolving Fund:		Beneficiary Loans:	
Opening Balance	450,000	Opening Balance	428,300
Add: Grant Received this year	50,000	*Add*: Loans given this year	275,800
	500,000	*Less*: Loans recovered	186,700
Less: Loans written off	4,850	*Less*: Loans written off	4,850
Closing Balance	495,150		512,550
Interest on Rev. Fund:		Bank Balance	23,900
Opening Balance	10,000		
Add: Received this year	31,300		
	41,300		
Total	**536,450**	**Total**	**536,450**

3) Interest received on micro-credit loans:

In some cases, NGOs receive interest and other service charges from the self-help groups. Both these are treated as FC funds[9].

FCRA Receipts and Payments Account (partial) of Lok Jagran Manch for year ended 31st March 2002

Receipts		Payments	
Opening Bank Balance	31,700	Loans given out	275,800
Grant received this year	50,000		
Loans recovered from benef.	186,700		
Interest received on RF loans	31,300	Closing Bank Balance	23,900
Total	**299,700**	**Total**	**299,700**

[8] Micro-finance projects, including setting up banking, co-operative and self-help groups
[9] It generated on a revolving fund created with foreign contribution

a) Show these on the receipt side of the FCRA Receipts and Payments Account.

b) Also report these[10] in FC-3 under table 2, row 56, column 7. You can specify this as 'interest / service charges on revolving fund'.

c) Interest income should be shown in table 1A also. This can be done under sub-heading (ii)(b) as 'interest on revolving fund loans'.

4) Interest paid to funding agency

In some cases, the NGO has to pay a nominal interest to the funding agency for the revolving fund[11]. This interest should be reported as an expense in FC-3. You could show this as utilization (column 10) in row 56 of table 2.

5) When the loans are given out again:

a) Show these on the Payment side of the FCRA Receipts and Payments Account.

b) Do not show these as an expenditure in the Income and Expenditure Account.

c) Whatever amount is given out again as loans during the year should be shown as utilization in FC-3 [table 2].

d) Show these loans on the Assets side of the FCRA Balance Sheet.

You should not transfer these funds to Indian section of the Balance Sheet at any time. Any loans that become irrecoverable during the year can be written off by reducing the Revolving Fund in the Balance Sheet as shown on the previous page.

Village Level Organisations

Can you transfer an FCRA Revolving Fund or its recovery to Village Level Organisations, such as *Mahila Mandals*[12] or self-help groups?

6) What is the law?

Let us first look at FCRA provisions regarding this.

1. FCRA covers all 'associations of individuals', whether incorporated or not [Section 2(1)(a)].
2. Foreign contribution includes delivery or transfer of funds from a foreign source. This is much wider than the commonly understood sense of 'donation' or 'grant' only [section 2(1)(c)].
3. The FCRA registration letter[13] prohibits transfer of FCRA funds to any other organisation not registered (or having prior-permission) under FCRA.
4. However, receipt of foreign contribution is regulated only if the 'association' has a 'definite cultural, economic, educational, religious or social programme'.

7) Applying the law

How does this apply to our situation? To under-stand this, *Mahila Mandals* or self-help groups can be categorised into five stages of evolution:

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[10] Interest and service charges, etc.
[11] Provisions of Foreign Exchange Management Act, 1999 may also apply.
[12] Women's Groups
[13] Also see explanation to section 2(1)(c) of FCRA, 1976

Stage	Association[14]	Program[15]
1	People just meet every week. No formal leadership.	No program. Just a common interest.
2	Meetings continue. A name is given to the *Mandal*. Leaders start emerging.	No program. Just a common interest in savings and credit.
3.	Group becomes more organised. A membership register is started. Office bearers are appointed.	Objectives of the group are widened and put down in writing.
4.	Memorandum of Association is signed. Society is not yet registered.	Memorandum of Association serves as a definite program.
5.	Society is formally registered.	Definite program continues to exist.

What happens if these groups want to receive FC funds?

- Groups at stages 1 and 2 do not need FCRA registration or prior permission.
- Groups at stage 3 may or may not need FCRA registration or prior permission.
- Groups at stages 4 and 5 definitely need FCRA registration or prior permission.

Accounting and Control

Classic accounting wisdom holds that recoverable loans should be treated as an asset. All banks follow this practice (though sometimes one wishes they wouldn't!). It is on this basis that FCRA department insists on revision of FC-3 wherever NGOs write off recoverable loans as Program Expenditure (see FCRA Treatment). Keep in mind that FCRA Revolving Funds should always be accounted in FCRA Cash Book and Ledgers.

When you treat the loans as an asset, the following issues come up:

8) Individual loans

You need to keep track of each loan separately. However, you can not open hundreds of loan accounts in the main ledgers. A sub-ledger is normally kept for individual accounts of the beneficiaries. In the main ledger, only total entries for each day may be recorded – the details are recorded in each individual's account. The main ledger and the sub-ledger are periodically tallied (reconciled). This system is similar to how your bank maintains your organisation's account in a sub-ledger.

9) Pass Books

Individual beneficiaries are issued loan pass-books. The loans given and the installments collected are entered in these pass-books. It is a good idea to have a photograph of the beneficiary pasted on the pass-book. Also if the pass book is printed bilingually (English and local language), it will help both your auditors as also the beneficiaries. If possible, try to cross-check the pass-books periodically with your sub-ledger accounts.

10) Loan Documentation

You need to have enough details in your office to locate and identify the beneficiaries. This may mean that apart from the address and parent's / spouse's name, you also keep a photograph of the beneficiary on the files. Getting a photograph may be easier than it sounds – you can use your own camera and photograph two persons at a time, standing side-by-side. Village people are often known by common names or pet names - keep a note of these also.

[14] Section 2 (1)(a) of FCRA, 1976
[15] Section 6 (1) of FCRA, 1976

A loan agreement on stamp paper is often useless in development work. However, use it if you find it relevant as a psychological tool. In such a case, have the standard agreement reviewed by a lawyer or your auditors.

If you don't want to get into the stamp paper routine, try plain paper instead. The agreement remains effective whether it is on stamp-paper or not.

You will need to keep proof of payment. This can be on a voucher or on a plain paper. Use a revenue stamp if the loan amount exceeds Rs.500. If the beneficiary is going to use their thumb, make sure it is the left thumb. Thumb impressions should normally be witnessed by one or two villagers whose names and addresses should be noted on the receipt / voucher.

11) Recoveries

If you want to keep your auditors happy, deposit the recoveries in the bank account first. In the long run, this will strengthen your internal controls and you are less likely to lose money through fraud.

Remember that you need to issue individual receipts. These should be pre-numbered and should have a carbon copy. Avoid using receipts which have a tear-off counterfoil. Bi-lingual receipts are better than English or local language receipts.

12) Internal Reporting

You need to generate regular reports to monitor how the credit program is progressing. These reports can show you how the recovery is progressing around different areas and how the funds recovered are being given out again. This will help you identify weaknesses in group-formation as also potential problems.

The key to managing a Revolving Fund is keeping the maximum amount of money out on loans at any given point of time. At the same time, you need to ensure that the money rotates from hand-to-hand reasonably fast. This will help you spread the benefit of your revolving fund.

13) Donor Reporting

Quite often the donors are satisfied to see a one time expense on their reports – 'All loans disbursed'. However, this misses out on the basic idea behind a Revolving Fund. Donor reports should show how much money has been recovered and how much has been disbursed again. The reports should also show how much loan amount remains healthy and recoverable at the end of the period.

Report to Donor	
Revolving Fund Status on 31st March '02	
Total Revolving fund Grant received so far	**500,000**
Utilization of This Grant:	
Opening Balance of Beneficiary Loans	428,300
Add: Fresh loans given out in this period	275,800
Total	**704,100**
Less: Recovery of Loans in this period	-186,700
Balance of Beneficiary Loans	517,400
Less: Loans written off as irrecoverable	-4,850
Final Balance of Beneficiary Loans	**512,550**

A 400-year-old Debt

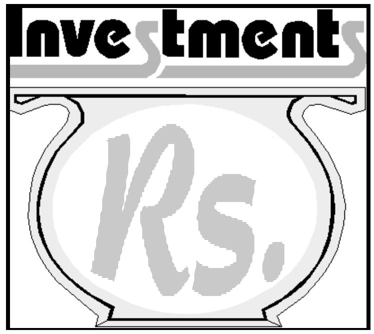
LONDON: Money owed to William Shakespeare's father, who was mayor of Stratford-Up-on-Avon in 1599, will be paid back to his civic successor almost 400 years late. Mr. Derrick Smithers, who has followed the father of England's most famous bard into Stratford Town Hall, was due to drive to Marlborough, south-west England, where the town's mayor, Mr. Charles Bates, will hand over the £21 at a public ceremony. But Marlborough has decided not to repay interest on the debt, which would be worth about £1,50,000 at today's prices.

Source: The Hindu, 1st August 1996

Corpus & Endowments[16]

What is a corpus? What are its features? How does it help an organisation? There is very little systematic literature on this. We try to deal with some of these questions here.

What is a Corpus



Corpus is a Latin word, which means *body*. In financial usage, it means a collection of bonds, stocks, or other holdings, which form the principal[17] of a trust fund.

The concept of corpus is closely linked to the concept of trust. When you set up a trust, you are effectively saying that you are placing your trust in some one. That some one is called the Trustee.

What does the trustee do? He or she manages the assets donated by you. These donated assets are the *subject* of the trust. These are also called the corpus of the trust. The corpus actually forms the financial heart of the Trust.

Corpus Features

Building it up

Is the corpus a onetime thing? Not really. The settlor[18] starts the corpus. Others can also help in increasing the corpus. You can do this by donating more assets[19] to the trust. The donor should tell you that the assets should be added to the corpus.

Can you add to the corpus on your own? You can. However, the money should not be taken from earmarked[20] funds. It should come from unrestricted[21] funds.

Corpus or endowment?

Can a donor give you funds for the corpus and say that its income should be used for a specific project? Not really. Income from the corpus can be used for any of the activities of the Trust. This discretion remains with the Trust. Therefore, it's better for the donor to call it an endowment. Endowments can be earmarked for specific activities.

Breaking the Corpus

When can you break the corpus? If corpus is the financial heart of a Trust, then the answer is obvious: You can break it when you are winding up the Trust.

Alternatively, you can also dip into it, if there is a very serious financial emergency facing the Trust. In such a case, you should also have a workable plan to replenish the corpus.

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[16] Based on AccountAble 8: Corpus & Endowments and AccountAble 67: Corpus
[17] 'Principal' means the main body, as opposed to interest or income from the corpus.
[18] Person who formed the trust
[19] Money, property, investments, etc.
[20] Funds given by donors for other specific activities
[21] Where you have the right to decide usage / allocation. An example is own income from interest.

Origins

Trusts have existed for a long time in Western countries, particularly UK and USA. We do not see a similar history[22] in India. This may be due to a different socio-economic structure[23] in India.

For a long time, trusts were created only by the wealthy. The purpose was to tie up their wealth so that it was not misused after their death. The money would be used only according to their wishes.

Trusts could be private – where their heirs could benefit, without being able to 'blow up' all the money. Or these could be public, where the money would be used for some socially useful cause.

Real or Nominal?

A trust like the ones above is a *real* Trust. How? Well, there is a real and substantial fund, which is the subject of the trust.

On the other hand, there is another type of trust, where the original fund is very small. It could be as low as a hundred rupees. In this case, the corpus is created only to meet the legal requirement of a Trust. We call these *nominal* Trusts. Why? Because, the corpus here is not significant in financial terms. (see box: 'How did Nominal Trusts emerge?')

Corpus in a Society

Speaking from this point of view, corpus should exist only in Trusts and not in societies. However, there are many societies, which have created 'corpus funds'. This has probably occurred because of the Income Tax Act, 1961. It uses the term corpus for both Trusts and Societies.

How did nominal Trusts emerge?

Around 19th century, a different type of organisation emerged: the society. This was similar to a company based on shares. You did not need a lot of start-up funds to set up a society. Instead you could raise money from public as you went along.

The Societies Registration Act was also passed in 1860, recognising the new form of organisation. The Act merely provided for registration and recording of basic information about a society. However, over a period of time, the Registrars became more powerful. There were endless delays: disputes over names, over clauses in the memorandum, residence proof, etc. It could take you upto a month to register a society – you might also have to spend 5-6,000 rupees in the process.

Registering a Trust, on the other hand continued to be simple. You could type a trust deed and register the trust in about two hours. Lawyers also pointed out a unique feature of the corpus. It did not have to be big – it could be just 1 rupee also. The whole process of forming a Trust would just cost 5-600 rupees.

These trusts emerged as an alternative to the lengthy process of forming a society. They are societies in reality, but structured as Trusts. We have called these Nominal Trusts.

An example of such a Trust is Pratham in Mumbai: on 31st March 1999, it had a corpus of Rs.500, while donations in 98-99 came to Rs.3.5 crores (source: Annual Report 98-99 on Pratham's web-site).

In this process, the corpus appears to have de-evolved. From being the heart of a trust, it became merely a legal formality. As a result, the practical significance of a corpus has been lost to most people.

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[22] This does not mean that charity did not exist in ancient India, merely that Indian charity did not use Trusts as a mechanism. In fact, the English word 'donation' is derived from Latin 'dõnum', which itself is based on the Sanskrit '*danam*'. So while we have the practice of *dharmada* and of endowments, we do not have an exact parallel for trusts.
Ignoring these facts and the existence of Acharya Chanakya's *Arthashastra* (300 B.C.), Mr. Powell has ascribed this to the 'primitive' state of Hindu society! [Introduction to Powell on Trusts, 2nd ed.]

[23] For instance, existence of Hindu Undivided Family meant that property was jointly owned by the family. The Karta acted as head of the family, but not as owner of family property. Further, in a joint family, there would be no shortage of able heirs.
On the other hand, Western legal structure emphasized individual ownership. This, combined with lack of a joint family, evolved into a society where lawyers were needed to guard an individual's property after his / her death.

What is the actual status of these funds? In our view, a society's corpus is a special fund, just like any other fund in a society. It looks like a Trust corpus but is not really a corpus. Therefore, some of conditions that normally apply to a Trust corpus would not apply to a society 'corpus'.

For example, a society can dip into its corpus at will[24]. A society can also dissolve its corpus, without affecting its existence. On the other hand, for a trust, dissolving its corpus is like winding up.

What does the above mean? Can societies continue to hold their 'corpus'? Yes. Most certainly. Only they should be aware of the true nature of such 'corpus'.

Utility of a Corpus

For nominal Trusts, a corpus has no real utility. These trusts raise funds each year from public or from other grant-makers. Such trusts, therefore, tend to neglect the corpus.

On the other hand, nurturing and building up a corpus is very important for real Trusts. If such a trust has a large Corpus, they can run their entire program with income from the Corpus.

There are many such organisations (called Foundations) in the USA[25]. Such trusts can focus their entire energies to building up the program. They do not have to worry so much about raising funds.

Corpus and the law

What does the Indian law say about Corpus?

Income Tax Act, 1961

- Donations towards corpus[26] need not be spent. These are not treated as income for calculating the 85% (from 1st April 2002) figure of expenditure-requirement[27]. This applies to both societies and trusts.
- In addition to corpus donations, NGO can transfer[28] up to 15% (from 1st April 2002) income to its corpus in a year.
- Funds have to be invested in approved modes[29].

Foreign Contribution (Regulation) Act, 1976

- Corpus created with FC funds should be shown on FCRA Balance Sheet. Related investments should also be shown on FCRA Balance Sheet.
- If you create (or increase) a corpus with FC funds, then its income becomes foreign contribution. Such income should be deposited in FCRA account. This interpretation[30] is used by FCRA authorities and is supported by accounting logic.

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[24] Unless the donor has put a restriction.
[25] In India, tax-exempt organisations have to spend 85% of their *income* each year. In the USA, they have to spend 5% of their *assets* each year. Why? The US tax structure is designed for corpus-based organisations. Some people argue that liberal deductions for tax-payers in the USA also encourage people to form Foundations.
[26] Donor must give a letter saying that the donation is towards corpus.
[27] NGOs exempt under section 12A have to spend 85% of their income each year. There are some exceptions to this.
[28] These funds should be under the NGO's discretion.
[29] Secs. 10(23D) and 11(5), Rule 17C
[30] FCRA is silent on this issue.

Bombay Public Trusts Act, 1950

(Applicable only in Maharashtra and Gujarat)

- Donations made towards corpus are excluded from definition of income[31]. This means you don't have to pay cess[32] on this amount to the Charity Commissioner.
- Investments have to be made in approved modes[33].

Accounting

Is corpus an asset or a liability? Most people talk of corpus as an asset: 'Oh, they don't have to worry about money – they have a big corpus.' Or 'I wish we had a big corpus.' When a person sets up a trust, he / she gives it some assets, which form the corpus. So you can say that a corpus is an asset.

However, this interpretation[34] does not fit in double entry accounting. To complete the double entry for corpus assets, we create a nominal account. This is called 'corpus fund'. The corpus fund is kept on the liabilities side. Why so? Well, this symbolises the legal liability that is attached to the corpus assets. From another perspective, this is the money owed by the Trust to the beneficiaries.

Disclosure

In a trust balance sheet, corpus would show up as below:

Liabilities	**Rs.**	**Assets**	**Rs.**
Corpus fund	1,000	Corpus Investments	1,000
Other liabilities	100	Other assets	100
Total	**1,100**	**Total**	**1,100**

Does corpus always mean investments such as bonds and deposits? No. Land, building and any other similar asset can also be part of the corpus.

When you look at a Trust's Balance Sheet, see whether their investments match their corpus or not. If the investments are less than the corpus, it's time to ask questions.

What happens to income from the corpus investments? It normally shows up in the Income and Expenditure Account. Where? On the Income side: mostly as interest[35]. Some Trusts in India have also started investing in mutual funds. So you could also see some income from sale of such investments.

What about the expenditure against this? Expenditure from corpus income is not tracked separately. So it will be spread over several expenditure heads.

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[31] Explanation 2, Section 58(1)
[32] In Maharashtra and Gujarat, fund-raising attracts a cess of around 2%. Some types of activities (education, medical relief, calamity relief, etc.) are exempt from this.
[33] Section 35
[34] See Corpus on page 96 under 'Commonly Confused Terms'.
[35] Some people mark it as 'Interest on Corpus Investments'. This is a good practice.

Some Indian figures

There is little data available on the corpus of Indian trusts. Some available figures are:

How much would corpora[36] of all the Indian trusts add up to? Following is based on estimates at www.Indiainfoline.com:

…The total aggregate corpus of all trusts is estimated at Rs.25,000 crores while the total incremental investment would be approximately Rs.4,000 crores per annum.

Trust	Date	Rs. in Cr.
CRY – Child Relief and You, Mumbai	30-6-00	6.88
India Foundation for Arts, Bangalore	31-3-00	8.41
National Foundation for India, Delhi	31-3-00	12.52
National Innovation Foundation, Ahmedabad	Start-up: Feb 2000	20.00
National Trust ... Disabilities	Start-up: Jan 2000	100.00
Rajiv Gandhi Foundation, Delhi	31-3-97	42.00

Religious trusts and Charitable trusts range from the very small ones to large ones like Tirupati Devasthanam, Mata Amritanandmayi Mission, Ramkrishna Mission, etc.

Other trusts include:

1. hospital trusts like Jaslok, Bombay Hospital, etc.,
2. armed forces trusts like Army Wives Welfare Association, Air Force Officers Association, and,
3. general trusts like Rajiv Gandhi Foundation, Birla Science Foundation, etc.

At first glance, these figures may appear to be exaggerated. However, consider that Tirupathi temple Trust raises 10 crores[37] annually from auction of pilgrims' hair alone! Then there is a growing trend among corporate houses: set up a Trust as part of corporate social responsibility. Both Infosys and WIPRO[38] have set up such trusts in Bangalore. Dr. Reddy's Laboratory has also set up a trust in Hyderabad.

Creating a 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.

[36] Plural of corpus
[37] Guinness Book of World Records: 2001
[38] Azim Premji Foundation

Before deciding on a Corpus grant, the organisation should take a very hard look at the objective and need for creating the Corpus. If the organisation 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.

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[39]. Assets which represent the Endowment Fund (investments, bank balance, etc.) should be either shown separately[40] 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[41] in the Income and Expenditure Account.

Total Expenses incurred out of such income should be disclosed by a note[42] along with purpose of expenditure.

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

[39] Such as 'CRY Endowment Fund'
[40] Such as 'CRY Endowment Assets'
[41] Such as 'Income from CRY Endowment Investments'
[42] Such as 'During 93-94, Rs.1,22,030 were spent out of CRY Endowment Income for core expenditure related to Machhera office.'

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 1: Calculate Annual Core Expenses

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

Step 2: Calculate Annual Assured Income

Item	Per Month	Annual Amount
Seminar Fees		
Donations		
Resource Hiring charges		
Savings Bank Interest		
Membership Dues		
Total Income (say)		15,000

Step 3: Calculate Net Requirement

Expenses (Step 1)	105,000
Less: Income (Step 2)	15,000
Net Requirement	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		
Total (say)	1000,000	123,000

Step 5: Calculate Rate of Return

$$\frac{\text{Annual Return: 1,23,000}}{\text{Purchase Cost: 10,00,000}} \times 100 = \text{Rate of Return: 12.3\%}$$

Step 6: Calculate Size of Total Corpus

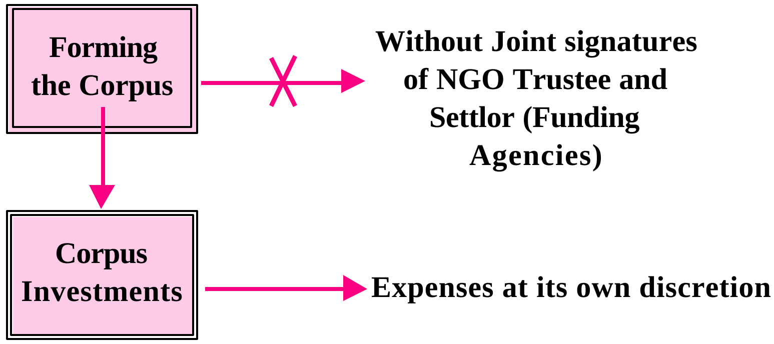
$$\frac{\text{Net Requirement: 90,000}}{\text{Rate of Return: 12.3}} \times 100 = \text{Corpus: 7,31,707}$$

Step 7: Calculate Additional Corpus

Total Corpus (Step 6)	731,707
Less: Present Corpus (as per Balance Sheet)	58,000
Additional Corpus required	673,707

Control Mechanism

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



- Strict legal documentation should be created so that the desired objective is fulfilled and funds cannot 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[43]

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. 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[44].

Nature of Security	***Examples***
Investment in Government Saving Certificates	• Indira Vikas Patra • Kisan Vikas Patra
Deposits in any Post Office Savings Bank account	• Post office Cumulative Time Deposit
Deposits in any account with State bank, Scheduled bank or cooperative bank	• State Bank of India • Punjab National Bank of India • Bank of Baroda • Citibank N.A. • Standard Chartered Bank

[43] Section 11(5), Rule 17C, section 10(23D) of Income Tax Act, 1961
[44] Please confirm with your auditors / advisors before investing

Nature of Security	***Examples***
Investment in Central/ State Government Securities Investments in UTI Schemes	• National Savings Certificates VIII issue • Unit Scheme 1964 • Unit Scheme 1995 (G) • UTI Bond Fund - 1998 • UTI Equity Tax Saving Plan
Investments in debenture of any company (the principal and interest should be guaranteed by the Central or State Government)	• Indian Railway Finance Corporation Limited • Power Finance Corporation Limited
Investment or deposit in Public Sector Companies	• Bharat Heavy Industries Limited • Bharat Electrical Limited • Indian Oil Corporation Limited • Madras Refinery Limited • Steel Authority of India Limited • The Mysore Paper Mill Ltd.
Deposits in / investments with financial corporations (engaged in industrial development)	• ICICI Safety Bonds • IFCI
Deposits in / investments with financial corporations (engaged in financing for residential houses)	• HUDCO • HDFC • LIC Housing Finance
Deposits with or investments in any bonds issued by a public company (engaged in housing finance or urban infrastructure in India)	
Investments in Immovable property	• Land • Buildings
Deposit with IDBI	• Deep Discount Bonds • IDBI Flexibonds
Mutual Funds (notified[45] by Government or registered with SEBI)	• Reliance Growth (G) • Morgan Stanley • Master Growth • Tata Income Fund (G) • Taurus Starshare • Zurich India Top 2000 • LIC Mutual Fund • IDBI Mutual Fund • ICICI Mutual Fund • GIC Mutual Fund • 20th Century Mutual • Alliance Capital • Birla Mutual Fund • IDBI Mutual Fund

[45] The Government / SEBI does not guarantee or recommend these investments as safe or prudent.