

## Managing Donated Funds: How to Review Gift Instruments

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As an entity evolves and fundraising strategies change, reporting needs also change. As a best practice, you should periodically review recordkeeping systems to ensure that existing procedures and documentation in the records will meet the reporting needs of the organization. This is especially true if there has been some turnover in the development office or other staff soliciting donors and maintaining records, or if your organization is actively seeking or accepting non-traditional and non-cash gifts. Organizations are encouraged to seek legal counsel when negotiating and drafting

(/interestareas/notforprofit/resources/governancemanagement/considerations-in-drafting-gift-agreements.html) large and complex donor gift instruments, or when trust or agency arrangements are involved.

Here are some basic steps for financial professionals to consider when assessing gift instruments:

1. **Inspect Donor Correspondence.** Select a sample of gifts, particularly larger gifts received during the past several months, and identify any missing information. If you find that there are several instances of missing information, that could indicate a systematic lapse in controls over the process. If gift provisions are missing, ask the development office for documentation of the gift acknowledgement or thank-you letter, which could resolve the missing information. Review all of the organization's correspondence with the donor; the missing provisions may be included in other communications as well.
2. **Inquire of Those Staff Involved in Solicitation and Responsible for Recordkeeping.** Talk to those who have some familiarity with the gift. This usually includes someone from the development office, and, for larger gifts, the CEO or Executive Director. Ask the Development Director to explain his/her understanding regarding the missing or unspecified provisions. Ask the finance staff in charge of recordkeeping to determine his or her rationale for the recording of the transaction.
3. **Obtain a Revised Agreement.** If you discover missing information and cannot find additional correspondence or evidence to support the donor's intent, consider contacting the donor to request further clarification in the form of a revised or amended agreement. Be aware that the process of cultivating a relationship with donors is an ongoing process, and an impersonal letter or 'out of the blue' phone-call from finance staff unknown to the donor may be off-putting to those donors. Remember many donors feel a personal connection to your organization. If you have a donor database, check there first for information about the donor – personal interests, past giving history, and so on. Ask your development officer before contacting a donor directly.


4. **Meet with the Donor to Discuss.** Although certain donors guard their privacy closely, it may be possible to set up a meeting with the donor to discuss any unclear terms in the agreements. This may be especially practical if the donor also volunteers on-site at the organization. It is important to check with the development officer or other staff who has a relationship with the donor before setting up any meeting, if that is possible.
5. **Send Confirmations.** A simple confirmation request to the donor may help bring clarity regarding an ambiguous term or condition. If the amount of the gift is significant to your overall financial statements, talk with your external accounting firm first. They may be able to provide a letter template and mail a confirmation letter on your behalf.
6. **Consider the Organization's Gift Acceptance Policies.** A well written and broadly communicated gift acceptance policy may help clarify otherwise ambiguous provisions contained in a gift agreement. View and download an example gift acceptance policy (</content/dam/aicpa/interestareas/notforprofit/resources/governancemanagement/downloadabledocuments/not-for-profit-gift-acceptance-policy.docx>).
7. **Consider Materiality.** Quantitatively, the smaller the gift, the less important it may be to obtain the clarifying information. If you are uncertain whether a particular gift is significant enough to warrant additional follow-up, ask your external auditor for guidance.
8. **Read Board Minutes.** The board of directors may have discussed the gift, and it is possible that there is a record of the understanding of the transaction from the perspective of those in attendance, which is another source of information to evaluate proper recording.
9. **Consider Subsequent Events/Years.** If a particular contribution is unclear, review the donor's past giving history. If the donor has given in previous years, information about the amount and timing of cash receipts will provide additional information that may not have been available at the time the gift was first recorded. Such information may be used to interpret current gift instruments or adjust any estimates made in previous reporting periods.
10. **Revise Gift Agreements for Future Use.** Charities, donors and auditors all will benefit from clearer, more understandable gift agreements. Having model agreements (or some organizations have templates) to offer prospective donors can help them focus on the gift, not on confusing details. Consider hiring an attorney to review and amend your gift agreements, especially if your organization routinely receives non-traditional gifts, or non-cash gifts such as real estate.

## Additional Resources


Considerations in Negotiating and Drafting Gift Agreements

(</interestareas/notforprofit/resources/governancemanagement/considerations-in-drafting-gift-agreements.html>)

Example Gift Acceptance Policy

(</content/dam/aicpa/interestareas/notforprofit/resources/governancemanagement/downloadabledocuments/not-for-profit-gift-acceptance-policy.docx>)(Word) 

Revenue from Contributions ([http://www.cpa2biz.com/AST/Main/CPA2BIZ\\_Primary/PRDOVR~PC-165125/PC-165125.jsp](http://www.cpa2biz.com/AST/Main/CPA2BIZ_Primary/PRDOVR~PC-165125/PC-165125.jsp))(AICPA Store)

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