NONPROFIT ENDOWMENTS: MANAGEMENT CONTROLS OVER DOCUMENTING RESTRICTIONS AND DESIGNATIONS WITH BEST PRACTICES

by

Douglas A. Whitham

Doctoral Study Submitted in Partial Fulfillment

of the Requirements for the Degree of

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Abstract

The financial management and reporting of endowment funds is a major undertaking of many nonprofit organizations. Research is scant on the subject of systems for documenting, managing, and controlling endowment funds. The general problem explored was whether the nonprofits studied have properly implemented a system to track and maintain documentation of their endowment funds to avoid being at risk of noncompliance. The research design employed in this qualitative research was the case study methodology. Specifically, a multiple-case study approach explored how three affiliated Midwestern nonprofits had a managed and controlled their endowment documentation. This applied doctoral research project examined how three affiliated Midwestern nonprofits document and control endowment funds, and to what extent a system exists and such documents have been maintained, to determine whether the nonprofits studied were at risk of noncompliance with donor-imposed restrictions or applicable accounting and legal requirements over restrictions and designations. The two primary biblical concepts explored in this study were accountability and stewardship. The research focused on how these concepts related to the management and control of endowment funds to ensure good stewardship of a major source of funding and accountability to donors and other stakeholders. One primary goal of this study was the completion of a set of best practices for use by the nonprofit sector and those advising nonprofits in the management and control of endowment funds.

Keywords: nonprofit, management control, endowment, restricted net assets, unrestricted net assets, board designation

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Dedication

Ad Dei gloriam (To God be the glory)

Acknowledgments

But my God shall supply all your need according to his riches in glory by Christ Jesus (Philippians 4:19, KJV).

Throughout, God has blessed me through the placing of persons in my life at the right time, in the right place, to supply what I need. I have benefited from family support, lasting friendships, and encouraging words from many with whom I have discussed personal goals, including this project. I have especially benefited from those involved in the field of education, from kindergarten through this present endeavor. I thank God for each one of them.

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Section 1: Foundation of the Study

Nonprofit organizations are required to classify properly restricted funds in their financial reports. Nonprofits frequently encounter issues in developing and maintaining a system of tracking the necessary documentation to ensure they classify properly endowment funds in their accounting system and thus properly reported in the financial statements. The lack of a proper system of documentation puts nonprofits at risk of improperly using donated resources and not accurately classifying funds in their financial statements and disclosures.

The purpose of this research was to explore how particular affiliated Midwestern nonprofits document and control endowment funds, and whether a system existed for managing endowment documentation, to ensure the nonprofits studied were not at risk of noncompliance with donor-imposed restrictions or applicable accounting and legal requirements over restrictions and designations. Properly maintaining a system of documentation of the restrictions imposed on endowment funds helps ensure accountability and auditability of a major source of funding of nonprofit organizations and is essential to informing the users of financial statements and being accountable to donors. This research includes a review of the professional and academic literature to show the relevance documentation and a proper system of documentation plays in the management of endowment funds to ensure compliance with donor restrictions, board designations, laws and regulations, and financial reporting requirements. This study filled gaps in the literature through a multi-case study as to how selected affiliated Midwestern nonprofits documented restrictions and designations of endowment funds, and whether they had done so, to ensure proper accountability and stewardship.

An objective of this study is to produce a guide to best practices in the area of accounting for endowments. A best practice is a technique or methodology that through experience and research, has proven reliable in achieving desired results. The findings of the multiple-case study will contribute to the field of endowment accounting by emphasizing practices and procedures designed to minimize the risk of noncompliance and promote positive outcomes. A commitment to using the best practices in any field is a commitment to using what is at one's disposal to ensure success.

Background of the Problem

The financial management and reporting of endowment funds is a major undertaking of many nonprofit organizations. Bhatti, Ashraf, and Akhtar (2014) noted the endowment funds of many nonprofit organizations comprise a major piece of their balance sheet. Bhatti et al. observed there are various laws and pronouncements within the U.S., which exist as guidance to aid in the proper establishment, management, reporting, and disclosure of such funds. The lack of a system for managing endowment funds and supporting documentation puts a nonprofit entity at risk of noncompliance.

Ryan, Mack, Tooley, and Irvine (2014) stated nonprofits play an important role within the economy and found that globally 62% (p. 385) of nonprofit revenues come in the form of contributions from governments or private philanthropists. Ryan et al. went on to say in many instances such transactions result in the contributor receiving only intangible benefits from seeing others helped and/or from satisfaction derived from the act of giving itself. Problems arise when, from an accounting viewpoint, not all contributions can be used at the nonprofit’s discretion (Ryan et al.). For example, donor-imposed conditions and donor-imposed restrictions can trigger differing accounting treatment based upon applicable accounting standards (Ryan et al.).

Financial Accounting Standards Board (FASB) Accounting Standards Update No. 2016-14 addresses various issues related to the presentation of financial statements of nonprofit entities. Issues addressed by the FASB include donor-imposed restrictions and new requirements for board-imposed designations. The addition of board designations as a required disclosure will require additional procedures of documentation to support the accounting for and reporting of endowments.

Puyvelde, Caers, Du Bois, and Jegers (2012) noted how the reputations of nonprofit managers often depend on the results of audits and that inefficiencies in management could cause donors to find other worthwhile causes to fund. There is a direct link between financial accountability and reporting to audit outcomes and management inefficiencies. Given the size and nature of the endowments of many nonprofits, it is important to develop and maintain a proper system of classification in accounting for and reporting endowments to adhere to imposed restrictions. There is a gap in the literature related to the study of documentation and classification systems used by nonprofits to ensure the proper accounting and reporting of endowment funds.

Problem Statement

The general problem explored is whether nonprofits have properly implemented a system to track and maintain documentation of their endowment funds to avoid being at risk of noncompliance with laws, regulations, reporting requirements, and sound control practices. This research explored the way nonprofits document endowments, any related restrictions, and board designations to ensure good stewardship of a major source of funding and accountability to donors and other stakeholders, and whether such documentation exists. There is a gap in the literature related to the understanding and effective practice of the documentation of endowment funds by nonprofit entities in complying with financial reporting and other related requirements. The accounting and academic literature opine concerning the types and benefits of endowments but assumes classification in managing and reporting of such funds is straightforward without regard to the existence of supporting documentation and the role of an adequate system of control in managing such documentation. The academic literature covers nonprofit governance, yet the place of supporting documentation, specifically as it pertains to endowment fund stewardship and accountability, and the role of its existence in helping those charged with governance to ensure compliance is lacking. The applicability of internal controls and the Sarbanes-Oxley American Competitiveness and Corporate Accountability Act of 2002 (SOX Act) to nonprofits are both subjects described within the literature; but the literature is tacit concerning the role of supporting documentation in ensuring a sound system of internal control and compliance with provisions of the SOX Act related to endowment fund management.

Gordon, Khumawala, Kraut, and Neely (2010) stated “accountability is both a legal and ethical obligation for nonprofit organizations that purport to use resources received to further their charitable mission” (p. 209) and noted the importance of annual reports as a means of communication used by nonprofits in their efforts to be accountable to their stakeholders and the public. Hofmann and McSwain (2013) discussed the unique nature of the financial reporting environment of nonprofit entities. Hofmann and McSwain observed how such an environment could provide an opportunity and incentive to engage in financial disclosure management. Absent a proper system of documenting endowment restrictions, a nonprofit is at risk of potentially misreporting at best, and possibly engaging in financial disclosure management.

The role of a system for managing supporting documentation to facilitate greater accountability and stewardship of contributed assets cannot be underestimated. The financial management and reporting of endowment funds is a major undertaking of many nonprofit organizations. There has been research in the professional literature devoted to nonprofits and their accountability. However, specific research on the documentation of restrictions and designations on donated assets and its importance is lacking. The specific problem to be addressed is whether certain affiliated Midwestern nonprofits have properly implemented a system to track and maintain documentation of their endowment funds to avoid being at risk of noncompliance with laws, regulations, reporting requirements, and sound control practices related to various restrictions and designations imposed on such gifts for ensuring compliance with donor wishes and the legal and ethical responsibilities of nonprofits.

Purpose Statement

The purpose of this qualitative research was to explore the way certain affiliated Midwestern nonprofits control and document endowments, and whether they maintained an adequate system of documentation, to determine whether those studied are at risk of noncompliance with donor-imposed restrictions, board designations, laws and regulations, and applicable accounting pronouncements as it relates to their stewardship of a major source of funding and accountability to donors and other stakeholders.

Nature of the Study

The qualitative research explored how certain affiliated Midwestern nonprofits manage and control endowment documentation to ensure they are not at risk of noncompliance with donor-imposed restrictions or applicable accounting requirements over restrictions and designations. The researcher compared the literature to the data gathered from this research to determine whether those studied were at risk of noncompliance with donor-imposed restrictions, board designations, laws and regulations, and applicable accounting pronouncements due to the lack of a proper system of documentation. This research added to the literature as it relates to the stewardship of endowments, a major source of funding, and accountability to donors and other stakeholders. This section describes the reasoning a qualitative study was chosen and the applicable method and design.

Research Method. Stake (2010) stated of qualitative research that it involves studying the thing or the target of the research project. Stake defined qualitative research as the study of how things work. The thing studied is how certain affiliated Midwestern nonprofits document endowments and whether they have a system that captures the necessary, required documentation. Quantitative and mixed-methods approaches were determined to be inappropriate for this study.

Creswell and Poth (2018) described characteristics of qualitative research used to study the thing as defined by Stake (2010) or research problem. Creswell and Poth (2018) advocated the use of qualitative research when a problem or issue requires exploration and where one requires a complex understanding of an issue. Characteristics of qualitative studies include a natural setting where researchers gather data in the field at the location where participants experience the issue being studied (Creswell & Poth). Qualitative research involves many methods in the collection of data through examining documents, interviews, and observation, among others, where the researcher is the key instrument (Creswell & Poth). The researcher determined qualitative research to be appropriate for this case study in looking at the *thing* of: how certain affiliated Midwestern nonprofits document and control endowments.

Creswell (2014) noted of quantitative research that it is one where a person tests objective theories through an examination of the relationship among variables. Creswell called for the use of statistical means in analyzing such variables. Quantitative measures by themselves cannot determine whether a nonprofit entity has put in place a system for properly managing its endowment funds to ensure compliance with accounting standards and other legal requirements such as donor-imposed restrictions and board designations. The use of quantitative measures or statistical data would not have enhanced this study.

Creswell (2014) described the mixed methods approach as involving elements of both qualitative and quantitative designs. Creswell stated the core assumption of the mixed method form of inquiry is that by combining the qualitative and quantitative approaches results in a more complete understanding of a research problem versus the use of either approach alone. The mixed methods approach was not appropriate as this study primarily involved the examination of documents and inquiries of personnel to determine whether the nonprofit had in place a system capable of properly documenting endowments as to classification. As noted above, the use of quantitative measures or statistical data, which would have comprised a portion of a mixed-methods research, would not have enhanced this study.

Research Design. The research design employed in the qualitative research is the case study methodology. Specifically, the researcher performed a multiple case study of selected affiliated Midwestern nonprofits to answer the research question. Creswell and Poth (2018) noted a case study begins with one identifying the specific case or cases described and analyzed. Using a multiple case study approach allowed for multiple affiliated Midwestern nonprofits controlling endowment funds to be chosen for in-depth study of the subject.

Creswell (2016) observed the basic concept behind a case study research design is to pick a case, or in the case of a multiple case study, several, and provide a description as to how a case illustrates an issue or problem. Yin (2014) stated doing a case study research would be preferred to other methods involving situations where the primary research questions are “how” or “why” type questions; the one performing the research has no or little control over behavioral events; and the focus of the present research involves a contemporary phenomenon, as opposed to a historical one. Yin went on to say the choice of whether to use a case study depends on the level of depth required to explain or describe some social phenomenon. In reviewing the various qualitative approaches, the case study research design was the best choice for this study for the following reasons. From the standpoint of the focus of the research, the case study allowed for an in-depth description and analysis of the procedures, documentation, internal controls, and staff qualifications, among other things, as they relate to ensuring endowments are properly classified with respect to designations and restrictions as required by donors and accounting standards.

The narrative approach was not appropriate for the following reasons. Creswell (2016) noted the focus of a narrative research would be on one, or possibly two to three individuals. Creswell and Poth (2018) stated the narrative design focuses on the life of the individual. Polkinghorne (2007) described narrative research as the study of stories. Polkinghorne noted narrative researchers study stories solicited from others orally or in writing. The present research required an in-depth study of a process, namely, the way nonprofits have documented endowments as to classification.

A phenomenological design was not determined applicable to this study as it is more appropriate for the study of individuals. A phenomenological research would serve as a collection of data from individuals who have experienced the phenomenon studied (Creswell, 2016). Lester (1999) noted the objective of a qualitative phenomenological research is to describe an experience that is “lived” of a phenomenon. Lester went on to say a phenomenology is concerned with the study of experience from the perspective of the individual. Creswell noted this is an important concept to phenomenology and that individuals studied must have experience with the phenomenon researched.

The grounded theory approach was not applicable to the present research. Creswell (2016) noted with grounded theory one is seeking an explanation pertaining to a theory of a process and the manner in which people act or interact. Creswell described a theory as being an explanation to help predict what will occur, how individuals will behave, or the way certain events will unfold in given circumstances. This study did not involve the development of a theory or theories.

Ethnography would not be applicable to this research as it is concerned with the study of a group of people. Creswell and Poth (2018) found an ethnographic study is used to identify a culture-sharing group and what is considered interesting and worthy of study regarding this group. Creswell (2016) described an ethnographic research as one that records information regarding the group's beliefs, behaviors, ideas, language, rituals, and the like, principally via the conduct of interviews and observations.

Creswell (2016) noted the researcher should clearly identify the nature or subject of the study, such as a group, an individual, an organization, a relationship, a community, a decision process, or a project. Creswell observed case studies frequently help with the evaluation of programs. Case studies lend themselves well to the study of an event, a program, or an activity (Creswell & Poth, 2018). The endowment documentation situation as described fits within the context of a process or program. The research problem related to the study of the process of documenting endowments is best suited to a case study methodology where an in-depth understanding of multiple cases or organizations controlling endowment funds is required.

Summary. As noted, the qualitative research method was appropriate for this case study in looking at the *thing* of: how certain affiliated Midwestern nonprofits document and control endowments, and whether they have maintained adequate system of documentation. A multiple case study design of selected affiliated Midwestern nonprofits will provide required information to answer the research question. Using a multiple case study design will allow for multiple affiliated Midwestern nonprofits controlling endowment funds to be chosen for in-depth study of the subject.

Research Question

1. How do affiliated Midwestern nonprofits control endowment funds through the management of documentation to ensure they are not at risk of noncompliance with donor-imposed restrictions or applicable accounting requirements over restrictions and designations?

Conceptual Framework

Regoniel (2016) noted how the conceptual framework "steers the whole research activity" (p. 13) and that it serves as the rudder that will guide one toward the intent of the study and/or realization of research objectives. Regoniel defined the conceptual framework within the context of an empirical research as representing the researcher's synthesis of the literature in defining a phenomenon. Regoniel stated the conceptual framework maps out the required actions during a study given the researcher's prior understanding of the views or knowledge of others as it pertains to his or her observations on the research subject. Regoniel opined "the conceptual framework is the researcher's understanding of how the particular variables in" (p. 13) one's study relate to each other and thus identifies the variables required in a research investigation. Reganiel observed the conceptual framework lies within a much broader theoretical framework.

Regoniel (2016) described the difference between the theoretical and conceptual frameworks as follows. The theoretical framework provides a general or broad representation of the relationship between various items in each phenomenon (Regoniel). The theoretical framework focuses on time-tested theories that embodied in the findings of numerous studies (Regoniel). The conceptual framework defines the specific direction of the research; it describes the relationship between the variables specifically identified in the study (Regoniel). Regoniel stated the conceptual framework consists of a figure called the research paradigm (see Figure 1).

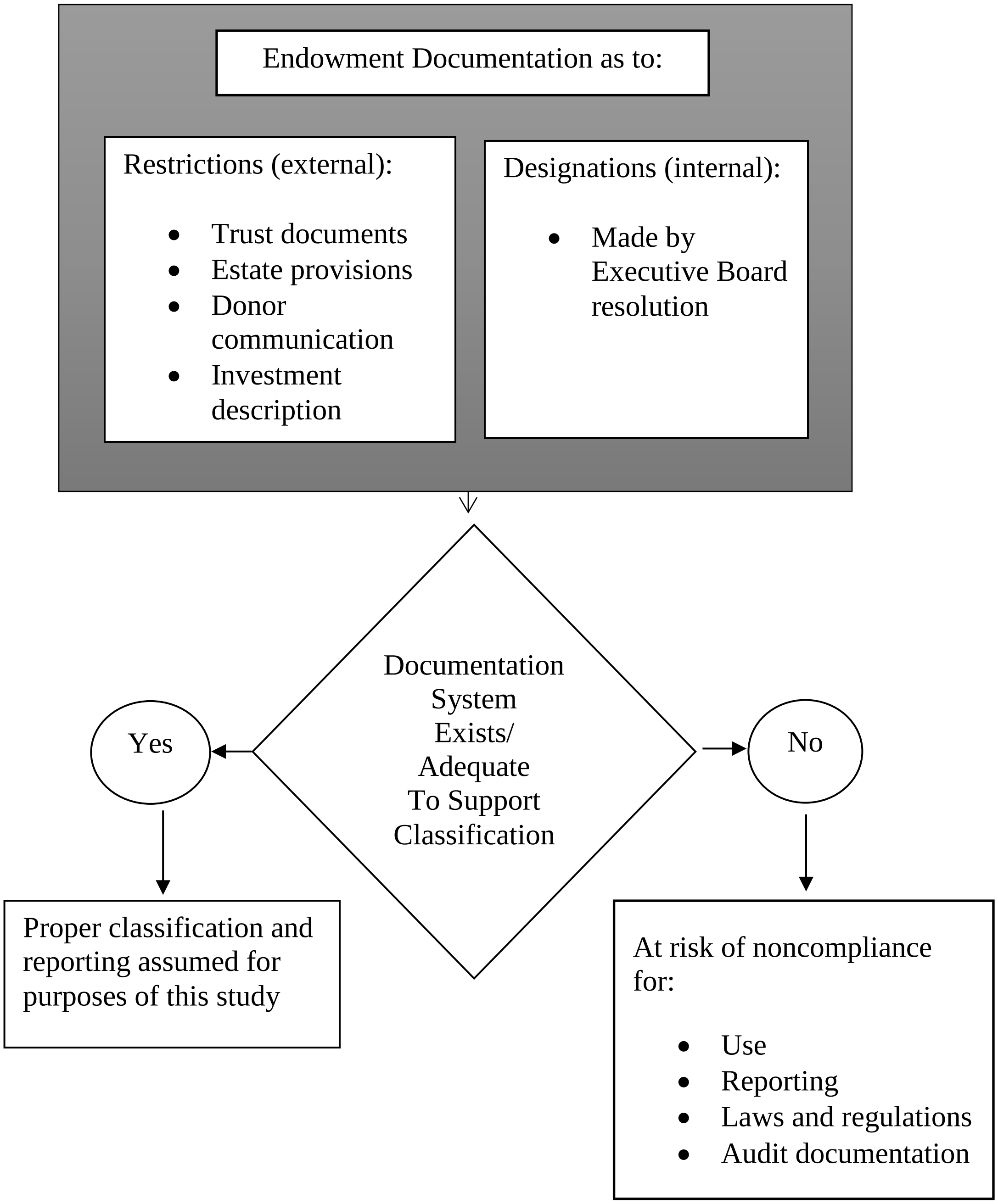

Figure 1. Endowment Documentation: Conceptual Framework.

The conceptual framework described herein sought to map out or serve as a guide to the overall study. The research explored how selected nonprofits document endowments, and whether they maintained a system for ensuring proper accountability. The conceptual framework illustrates which ideas from the literature ground the research conducted.

Endowments are a pool of money or other financial assets (Blanchett, 2014) and often established by nonprofits and the like. An endowment represents a collection of assets received by a nonprofit, invested to produce a stream of revenue for specified activities (Calabrese & Ely, 2017). Permanently restricted endowments are perpetual as established by the donor. Donors can establish term endowments, which stipulate that a portion or all the principal sum may be expended after a stated period has elapsed or with the occurrence of a certain event or events. A recipient entity has discretion in the use of unrestricted endowment funds in carrying out its mission. Quasi-endowments provide income for a long yet unspecified timeframe as designated by a board. Endowment giving affords donors the opportunity to contribute to the long-term viability of the nonprofit and perpetuate values from one generation to the next (Calabrese & Ely, 2017).

Reporting the classification of endowment funds as to types of donor-imposed restrictions and/or board designations assumes a system of control of the related documentation to support such restrictions and designations. Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 116 – Accounting for Contributions Received and Contributions Made and Statement No. 117, Financial Statements of Not-for-Profit Organizations requires certain accounting procedures in accounting for and classifying endowments based on the existence or absence of donor-imposed conditions and restrictions. Financial Accounting Standards Update No. 2016-14 - Presentation of Financial Statements of Not-for-Profit Entities includes reporting guidance and provisions pertaining to board designations. Pronouncements of the FASB apply to endowments held by the nonprofit, nongovernmental sector.

Certain Governmental Accounting Standards Board (GASB) pronouncements apply to endowments held by the public governmental sector, typically public colleges and universities. For example, GASB 33, *Accounting and Reporting for Non-Exchange Transactions* addresses the time requirements of permanent and term endowments, as well as, purpose restrictions, such as with donor-imposed restrictions on endowments. GASB 34, *Basic Financial Statements – And Management's Discussion and Analysis – for State and Local Governments* addresses, among other things, the reporting of restricted net assets and distinguishes between capital contributions, contributions to permanent and term endowments, special and extraordinary items, and transfers.

Document retention and management is important to the management and stewardship of endowment funds. Barrett (2007) observed a proactive approach to document management and records retention is essential to good governance, decision-making, and risk management. When one creates an endowment there are generally guiding documents, such as a trust instrument, or other written documentation of donor intent, or simply a corporate resolution by the board of directors that establishes the endowment and expresses the guidelines for its use. The guiding documents may literally restrict the use of the endowment funds. Organizations put themselves at risk of misappropriating endowment assets where a sound system of documentation does not exist.

Restrictions placed on endowments and accounting for such restrictions represents a form of agency theory. Bendickson, Muldoon, Liguori, and Davis (2016) and Shapiro (2005) discussed agency theory in their research. Bendickson et al. observed agency theory hinges around the principal-agent problem or governance mechanisms. Shapiro (2005) noted in an agency relationship, one party acts on behalf of another. The agency theory perspective attempts to explain the relationship between the principals, the donors and other beneficiary stakeholders, and the agents, the managers and board members of the nonprofit organization. An agency problem can often arise where the interests of the principals and agents are divergent (Shapiro, 2005).

Nonprofits are legally and ethically responsible for the proper stewardship of gifts according to donor intent (Bernstein, Hamilton, & Slatten, 2015). Any loss or misappropriation has an adverse impact on the reputation of the nonprofit and it threatens future donations. Hofmann and McSwain (2013) observed that donors and creditors of nonprofits experience agency problems with managers, because resource providers do not possess full decision-making rights and because management does not entirely bear the wealth effects or financial risks related to its decisions. While an in depth study of agency theory as it pertains to endowments was not the focus of this research, it is important to note the role of a proper system for classification of endowments based on donor restrictions to ensure funds are used for their intended purpose.

As it involves nonprofits and endowments, donors face an agency problem which can be limited through the use of restrictions on contributed assets (Surysekar, Turner, & Wheatley, 2015); restrictions can serve as a form of corporate governance (Yermack, 2017). Oftentimes, operational changes occur for benefiting organizations due to a variety of circumstances making adherence to donor restrictions difficult; such events can result in the failure of proper governance and thus a lack of proper stewardship over gifts received (Lippman & Grimmer, 2016). A lack of adequate supporting documentation and/or a system of maintaining such documentation can leave an organization at risk of non-compliance and can jeopardize the fiduciary or agency responsibility of their board. Employing the proper governance mechanisms minimizes risks related to the agency problem.

The board of the nonprofit is responsible for ensuring the proper management and reporting of endowment assets. Dent (2014) stated that the board of directors of a nonprofit has not only the power, but also the obligation to set the direction of the organization and it would constitute a breach of its responsibilities to delegate this function to another. Vasile and Croitoru (2013) posited that management is responsible for the design and implementation of the management control systems put in place to help the organization achieve its objectives. Ahrens (2018) noted the importance of how intertwining the organization and management control systems contributes to shaping the organization and how it becomes indispensable to its functioning. Management controls are important to curbing the risk of noncompliance and provide what control procedures ensure proper reporting and accountability to external parties.

The board of the nonprofit and its management are also responsible for maintaining a system of internal control, which designed to ensure the organization, achieves its objectives. The control environment sets the tone of the organization, which influences the control consciousness of its people. Internal control is integral to practically every activity a nonprofit undertakes ranging from basic to strategic (Turpen, 2015). Sound internal control helps management in its efforts to be good stewards of endowment assets from use to reporting.

Definition of Terms

Terms as used in the research include the following.

Donor imposed restriction: limits the use of the asset to a narrower focus than that of the nonprofit (FASB, 1993a).

Donor restricted endowment fund: An endowment fund created by a donor stipulation requiring investment of the gift in perpetuity or for a specified term (AICPA, 2017).

Endowment fund: An established fund of cash, securities, or other assets to provide income for the maintenance of a not for profit (AICPA, 2017).

Funds functioning as an endowment (Quasi-endowment): Unrestricted net asset designated by an entity's governing board, rather than restricted by a donor or other outside agency, to be invested to provide income for a long but unspecified period (AICPA, 2017).

Net assets: The excess or deficiency of assets over liabilities of a not for profit, which is classified into three mutually exclusive classes according to the existence or absence of donor-imposed restrictions (AICPA, 2017).

Nonprofit activity: An integrated set of activities and assets conducted and managed for providing benefits, other than goods or services at a profit or profit equivalent as a fulfillment of an entity's mission (AICPA, 2017).

Not-for-profit or nonprofit entity: An entity that possesses the characteristics of: receiving large amounts of resources from resource providers who do not expect commensurate or proportionate pecuniary return; operating purposes other than to provide goods or services at a profit; and an absence of ownership interests (AICPA, 2017).

Permanent endowment: Assets donated with stipulations to provide a permanent source of income (FASB 1993b).

Permanent restriction: Donor imposed restriction on the use of assets for its life (FASB, 1993a).

Permanently restricted net assets: The part of the net assets of a not for profit resulting from contributions and other inflows of assets whose use is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the not for profit (AICPA, 2017).

Restricted net assets: Resources whose use is restricted by donors as contrasted with those over which the not for profit has complete control and discretion (AICPA, 2017).

Temporarily restricted net assets: Net assets of a not for profit resulting from contributions and other inflows of assets whose use by the not for profit is limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by actions of the not for profit pursuant to those stipulations (AICPA, 2017).

Temporary restriction: Donor imposed restriction on the use of assets for a period certain (FASB, 1993a).

Term endowment: Gifts of assets that are to provide a source of income for a specified term and for a specified purpose (FASB, 1993b).

Unrestricted: Donations without implicit restrictions on their use (FASB, 1993a).

Unrestricted net assets: The part of the net assets of a not for profit that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations (AICPA, 2017).

Assumptions, Limitations, and Delimitations

Assumptions are facts considered true, but not verified. Limitations refer to potential weaknesses of the study. Delimitations refer to the bounds or scope of the study. Below are the assumptions, limitations, and delimitations of the study.

Assumptions. Creswell and Poth (2018) identified four philosophical assumptions related to qualitative studies: ontological, epistemological, axiological, and methodological. Ontological issues related to this study included gathering evidence of multiple realities in the form of evidence gleaned from themes representing multiple perspectives as identified from interviews conducted. To mitigate risks related to multiple realities, the research focused on identifying recurring or common themes.

An epistemological assumption involves gathering subjective evidence in the field from the individuals studied (Creswell & Poth, 2018). Because this was a case study of a process, risks related to epistemological, assumptions were minimal. Any inconsistencies that arose related to the endowment documentation process from individuals interviewed were reconciled.

Axiological assumptions pertain to the way a researcher makes his or her values known in a study (Creswell & Poth, 2018). The personal experiences, political and professional views, and potential biases, among other things, of the researcher should be discussed within the context and setting of the research (Creswell & Poth). While there was some risk related to the interpretation of statements made by those interviewed, there was little room for interpretation in the exploration of the sufficiency of endowment documentation or systems of control.

Stake (2010) noted that bias is the lack of appropriate subjectivity. Stake observed one should design studies to minimize the role of human judgment and therefore minimize bias where possible. Stake advocated for the use of a small number of critical, objective criteria in the evaluation of a study to determine whether the subject of the study was acceptable or not.

Methodological assumptions relate to the procedures of a qualitative research (Creswell & Poth, 2018). The researcher reviewed the process of the research system of evidential support throughout the study to ensure the procedures were adequate to address the research question. A detailed knowledge of the research subject came from an analysis of the findings.

Limitations. Creswell and Poth (2018) stated that as multiple case studies increase in their use one must consider three issues: limitations on resources, case selection, and cross-case analysis. Creswell and Poth found where the studies involving multiple cases stretch the available resources of time and money, and as a result, the analysis becomes diluted. Time was a greater limiting factor than financial resources in the study. The researcher designed exploration methods to mitigate dilution.

When one opts for a multiple case study approach for purposes of generalizability, the issue of how many cases to select becomes a problem, with researchers preferring no more than four to five cases (Creswell & Poth, 2018). To address the scope issue, one would necessarily identify the object or phenomenon up front in the process to guide the case selection. The researcher selected three nonprofits with the criterion of focusing on those with endowment funds under management.

Creswell and Poth (2018) identified another problem with the case study design methodology, the rigor of the study or quality of evidence. The researcher addressed the issue of quality using sufficient illustrative examples from the multiple nonprofits selected. This study was limited to the exploration of the documentation, systems, and practices of the selected nonprofits as they pertain to classifying endowment funds.

Delimitations. Nonprofits explored and the requirements of the accounting literature served as bounds to the study. The focus of the study was on the nonprofits selected as to the personnel interviewed and documentation available for inspection. The accounting literature dictated the way endowment funds were reported and served as the theory against which the endowment documentation and subsequent classification were analyzed. Additionally, time served as a bound to the study.

Significance of Study

The significance of the study section provides information on the contribution of this research to the body of literature and affected stakeholders. First, the study discussed the reduction in gaps in the existing literature. Second, the study covered the significance from a biblical worldview perspective. Finally, the study described its relevance to the field of accounting.

Reduction of Gaps

This study will fill in gaps within the literature related to the understanding and effective practice of accounting for endowment funds by nonprofit entities. Most research in the literature follows that of Rossouw (2006, 2007) as it relates to difficulties nonprofits face when accounting for endowments and their presentation in the financial statements and related disclosures. Gordon (2013) described the legal and ethical obligation of nonprofits as it pertains to accounting and reporting. The authoritative accounting literature promulgated by the FASB and GASB opine concerning what is required of nonprofits in their reporting and disclosures. The literature is scant concerning information on how nonprofits develop and maintain a system of documentation to comply with accounting pronouncements. This research explored the systems of accounting for endowments of at least three affiliated Midwestern nonprofits with the intent of documenting any shortcomings in practice and discuss some best practices related to management control and a system of maintaining supporting documentation pertaining to endowment funds.

Implications for Biblical Integration

Two related biblical concepts pertaining to this study are accountability and stewardship. In several places, the Bible addresses accountability. However, the parable of the talents as described in Matthew 25:14-30, where each one has talents, seems most applicable to the research. While the talents can represent many things, including time, treasure, gifts, or skills, they can represent endowment gifts made to nonprofits. The Lord expects us to use the talents

He has given us for His glory. Those persons or entities gifting endowment funds expects the use of such gifts adheres to any imposed restrictions or other designations. Managers, and ultimately boards of nonprofits, are accountable for the safeguard and use of endowment assets.

Caldwell, Hayes, Karri, and Bernal (2008) found ethical stewardship has its origins in stakeholder theory; a theory for governing in which managers serve as stewards motivated by goals that are aligned with a number of internal and external parties. Caldwell et al. noted governance theories related to ethical stewardship involve how an entity optimizes its accountability and performance. Caldwell et al. went on to describe how objectives and related values are incorporated into the structures and systems used by organizations. Caldwell et al. observed the leadership of an organization develops and maintains relationships with others in the entity that are designed to generate commitment and cooperation, in the manner in which principles of leadership and management are to be optimally carried out in the conduct of business.

Good stewardship in organizations does not limit itself to those engaged with profit seeking motives. Use of the balanced scorecard by for- and not-for-profit entities helps in the identification of key objectives and measure performance against those objectives to gauge whether an organization is meeting its goals. Karns (2011) observed the stewardship theory of management focuses on the practices of management as opposed to the greater purpose of business and its role in society. Karns noted with stewardship theory, values-based managers receive motivation from a higher-order and pursue service over economic self-interest.

The principle of stewardship entails managing the property of another. In the Genesis account, God created all things and put Adam and Eve in the Garden to care for His creation. The work of humankind entails being a steward of all the creation God has provided.

Endowment funds are included in what belongs to God. Proper stewardship of endowment funds demonstrates an obedience to God regarding the administration of what He has placed under the nonprofit manager's control. The role of control mechanisms over supporting documentation to facilitate greater accountability and stewardship of contributed assets cannot be underestimated.

One engaged in the management of endowments will be most effective if he or she operates with a Christian worldview. McCuddy and Pirie (2007) noted the actions of stewards be founded in inherent values as opposed to those induced by contract. When one acts as a steward, he or she is employing spiritual principles in guiding behaviors (McCuddy & Pirie). Caldwell et al. (2008) stated that one's relationship with God defines how one carries out his or her duties.

Therefore, it is important for the manager of endowment funds to know that the resources allocated and the individuals and societies affected both now and in the future, belong to the Lord. Psalm 24:1 (New International Version) states: "The Earth is the Lord's, and everything in it, the world, and all who live in it." McCuddy and Pirie (2007) noted that those engaged in making financial decisions are acting as stewards for others.

Relationship to the Field of Study

This study relates to the field of accounting as follows. There are specific accounting and reporting requirements prescribed by the FASB and GASB related to the accounting for and reporting of endowment funds. There are implications for the tax accounting arena with nonprofits being required to file Internal Revenue Service (IRS) Form 990 or one of its versions; supporting documentation is critical to substantiate these filings. Proper nonprofit governance requires a sound internal control environment, which based upon management's attitude about properly maintaining a system for controlling and managing supporting documentation.

Effective internal control procedures require the maintenance of supporting documentation; for this study, supporting documentation is in relation to a system for controlling and managing endowment funds denoting their restrictions or designations. This study sought to determine how the management of certain nonprofits document the classification of its endowments to ensure proper reporting and use of funds.

A Review of the Professional and Academic Literature

Accountability for the resources of nonprofit organizations has received increased attention in recent years. Publicized scandals over prior years have served to reduce public confidence in nonprofit organizations (Mead, 2008). Many nonprofits are under pressure to be more accountable to contributors and other stakeholders (Iyer & Watkins, 2008).

The nonprofit sector has grown considerably with an increase from around 1.3 million to 1.4 million based on the number of organizations registered with the IRS between the years 2002 to 2012 (McKeever & Pettijohn, 2014; Schatteman & Waymire, 2017). In the U.S., nonprofit organizations received contributions totaling approximately $291 billion in 2010 (Surysekar et al., 2015). Individuals donate to nonprofits because they believe in a cause and want to see the mission delivered in an effective and efficient way (Surysekar & Turner, 2012). Governance and accountability are subjects of growing importance for the nonprofit sector. Gordon (2013) observed the focus of donors and regulators is most commonly on the use of resources and financial viability, with public accountability likely going beyond information as reported. If a nonprofit is to achieve its objectives, its principals must ensure the proper use of its assets and ensure the proper management of its financial activities.

Donors to nonprofits face an agency problem which can be limited by placing restrictions on the use of contributed assets (Surysekar et al., 2015) which in turn serves as a form of corporate governance (Yermack, 2017). Oftentimes, operational changes occur for benefiting organizations due to a variety of circumstances making adherence to donor restrictions difficult; such events can result in the failure of proper governance and thus a lack of proper stewardship over gifts received (Lippman & Grimmer, 2016). In other instances, the original intent of donors can become lost over time contributing to the misuse of gifted assets resulting in board members falling short in their legal and ethical obligations; this puts the reputation and 501c3 status of nonprofits at risk (Bernstein et al., 2015).

Based in part on the literature review, certain themes and/or perceptions emerged as the study unfolded in answering the research question. Themes are recurring patterns that emerge during the course of a study and are important to the description of the thing studied. Perception is how one experiences the thing studied. The thing studied in this research was the system to control and manage endowment funds at three related Midwestern nonprofits.

The researcher expected to experience certain recurring themes at each site in the multiple case study. Endowments of various types with differing restrictions. Endowments supported with documentation and others managed more from an historical understanding. The more recent the endowment gift the better the documentation due to an enhanced emphasis on documenting gifts and improved methods. Varying degrees of quality of board minutes and supporting documentation in relation to the documentation of board restrictions or designations. Fund accounting systems of varying types designed to accomplish essentially the same purpose, with that being the tracking and managing of endowment gifts. In addition, some form of spreadsheet to track gifts, likely used to tie out with financial statements and other reports, such as IRS Form 990. An analysis of emerging themes is a part of this qualitative multiple case study and helped in the development of a set of best practices for use in managing endowment funds.

No natural tension exists within the academic literature regarding stewardship and accountability for endowment funds. In fact, few studies exist purely on the subject of endowments. Most research in the literature follows that of Rossouw (2006, 2007) as it relates to difficulties nonprofits face when accounting for endowments and their presentation in the financial statements and related disclosures. Gordon (2013) described the legal and ethical obligation of nonprofits as it pertains to accounting and reporting. The authoritative accounting literature promulgated by the FASB and GASB opine concerning what is required of nonprofits in their reporting and disclosures. The literature is scant concerning information on how nonprofits develop and maintain a system of documentation to comply with accounting pronouncements. The literature review leveraged the information available on endowment accounting and other related literature, such as, that on nonprofit governance, internal control, and document management to create a roadmap leading to the development of a guide to best practices in documenting and managing endowment funds.

A review of the literature demonstrates where documentation and a sound system of documentation fits into the operating, recording, and reporting of the endowments of nonprofit entities. The literature review is as follows: (a) endowments, their types and beneficial features; (b) instances of misappropriation of endowment assets; (c) nonprofit governance; (d) internal controls and nonprofit accounting systems; (e) financial reporting and related standards; and (f) document retention and management. In each instance, it was noted how a sound system of managing endowments was pertinent to each area discussed. The subsequent study will fill in gaps within the literature regarding how the use and management of a system of documentation is vital to the proper accountability and stewardship of endowment funds.

Endowments – Types and Beneficial Features. An organization will receive endowments as monetary or property donations as a means of ongoing support of its mission. Endowments are a pool of money or other financial assets (Blanchett, 2014) often established by nonprofits and the like. Anthony (1995) noted a major difference between nonprofits and business entities is the source of equity capital, with business organizations securing equity capital from shareholders, while nonprofits obtain equity capital in the form of endowments, buildings, and similar long-lived assets. The term endowment generally refers to funds, which have been set aside, externally or internally, with either restrictions or stipulations placed on their use (Blanchett, 2014) for the benefit of the organization. The AICPA *Audit and Accounting Guide for Not-for-Profit Entities* provides the following definition of an endowment fund.

> An established fund of cash, securities, or other assets to provide income for the maintenance of a not for profit. The use of the assets of the fund may be permanently restricted, temporarily restricted, or unrestricted. Endowment funds generally are established by donor-restricted gifts and bequests to provide (a) a permanent endowment, which is to provide a permanent source of income, or (b) a term endowment, which is to provide income for a specified period. (AICPA, 2017, p. 618)

Charitable gifts, such as endowments, play a vital role in supporting nonprofit organizations with accumulated restricted donations being a growing part of the capital structure of many (Yermack, 2017). Nonprofits see endowment accumulation as salient (Calabrese & Ely, 2017) and make building endowments a strategic priority to provide long-term financial stability to their respective organizations. The sustainability of many nonprofit institutions depends upon continued external support (Cordery, Sim, & Van Zijl, 2017) and the prudent management and administration of endowments (Yaacob, Petra, Sumardi, & Nahar, 2015). Endowment funds normally generate income used in the general operation of the nonprofit or for other purposes. There has been significant growth in the number of nonprofits registered with the IRS between the years 2002 to 2012 with endowments being important to their financial sustainability (McKeever & Pettijohn, 2014; Schatteman & Waymire, 2017). There is significant money in endowment funds throughout the U.S. and world today.

A true endowment represents a collection of assets received by a nonprofit, invested to produce a stream of revenue specified activities (Calabrese & Ely, 2017). One can earmark a considerable portion of an endowment's assets for a special purpose or otherwise come with a defined set of restrictions (Helms, Henkin, & Murray, 2005). The nonprofit organization must honor donor restrictions and be accountable, often accomplished through the development of an investment policy, and continued monitoring and financial reporting. The ability to do this effectively is determined to some extent by the degree to which the organization has adequately maintained and managed its historical documents detailing the intent of the donor, such as wills, trust provisions, and the like.

True or permanent endowments as established seek to maintain the principal, the original gift of the donor. Eligible for disbursement is the income earned from the assets or the amount generated by the current spending policy. A donor establishes a permanently restricted endowment as one maintained and held in perpetually. Surysekar et al. (2015) noted that an agency problem exists for donors as the managers of nonprofits can use unrestricted donations at their discretion for activities and programs not valued by the donor, thus giving rise to contributions with donor-imposed restrictions. Yermack (2017) called such restrictions 'donor governance' designed to limit the discretion of managers, and that such donations effectively represent equity investments by the donor in the nonprofit. Donor restrictions can complicate the management and deployment of endowment assets (Helms et al., 2005). Permanently restricted endowments are true endowments, with only the earnings used to support activities. Baker and Collins (2005) studied endowed charities and noted the importance of on-going accountability for assets with donor-imposed restrictions.

Other types of endowments exist as well. Donors can establish term endowments, which stipulate that a portion or all the principal sum may be expended after a stated period has elapsed or with the occurrence of a certain event or events. At the expiration of the period, or with the occurrence of the event or events, the wishes of the donor dictate the use of the principal sum. Term endowments provide the nonprofit with a greater deal of financial flexibility in the use of funds (Schroeder, 2015). Term endowments are temporarily restricted endowments.

In other situations, donors may impose minimal or no restrictions. Under such circumstances the nonprofit board must determine how best to steward this valuable resource for the organization's long-term well-being. An unrestricted endowment is one used at the discretion of the recipient entity in carrying out its mission. Little or no restrictions will apply, which is helpful in providing the maximum degree of flexibility.

Quasi-endowment funds are generally established when the nonprofit organization receives an unrestricted bequest, receives funds from the sale of property, or if it has excess cash available for such purposes. Quasi-endowments are endowments designated by boards to provide income for a long yet unspecified timeframe. Bhatti et al. (2014) stated quasi-endowments are endowments created to serve new projects, support existing programs, or to provide funds for emergency needs. The board of a nonprofit could decide to restrict the endowment funds, such as to use them only for a building project or another definite objective; this would constitute board-designated funds that function as an endowment, a quasi-endowment (Bowman, Tuckman, & Young, 2012). Thus, the board internally designates a quasi-endowment; there is no donor intent. Unlike true or permanent endowments and term endowments, a board can terminate quasi-endowments at any time; therefore, both the principal and interest of quasi-endowments are available to the organization. A summary of possible accounting classifications of endowments follows.

Table 1

Endowment Classifications

	Permanent or True Endowment	Temporarily Restricted or Term Endowment	Quasi-Endowment
Restricted by	Donor/External Party	Donor/External Party	Board Designation
Principal	Permanently Restricted	Temporarily Restricted for Period or Term	Unrestricted
Earnings	Permanently or Temporarily Restricted or Unrestricted	Temporarily Restricted	Temporarily Restricted or Unrestricted

Whether a true endowment, a term endowment, or quasi-endowment, the nonprofit organization may manage its endowment funds internally, as separately accounted for investment funds or the nonprofit may set up a separate legal entity to hold and manage the funds (Calabrese & Ely, 2017). Separate management helps to demonstrate that the endowment fund is distinct and that it provides for the organization’s long-term needs. Separate management of endowments limits the ability of the board to use restricted funds during emergencies and it protects the assets from creditors of the nonprofit (Hopkins, 2004).

The management of endowment funds is comprised of three primary components. The first pertains to the investment policy. A properly designed program for planned-giving should include a written investment policy; it serves to provide the basis for the selection of the investment manager, outlines the investment strategy, and describes the overall investment philosophy (Fockel, 1993). The investment policy dictates what types of investments are permissible. An organization's policy on investments will determine how aggressive the investment manager can be in meeting targeted investment returns.

The organization's policy on withdrawals is another component relating to endowment funds. In fact, one of the most important decisions is the size of the distribution (Calabrese & Ely, 2017). Spitz (1999) noted the fundamental responsibility of those charged with managing endowments is the preservation of the principal or corpus of the fund in perpetuity. The need to preserve the real value of the endowment and its payout dictates a responsible level of annual spending (Spitz). A properly developed policy on withdrawals states the amount of funds the organization can use or take out at certain intervals to meet its needs. Some policy proposals have called for minimum payouts of five percent (Waldeck, 2009). The policy on withdrawals will also therefore dictate what remains in the fund.

The usage policy is the third component of an endowment fund. The usage policy describes the purposes for utilizing such funds. Considerable portions of the assets of endowments are for a special purpose (Bhatti, 2014) or come with donor-imposed restrictions (Helms et al., 2005). The usage policy is in place to help ensure all activity of the fund adheres to the purposes or any restrictions for which the endowment was established. The usage policy was the focus of this research with the underlying proper documentation of restrictions or designations being of primary concern.

Are endowments beneficial? Nonprofits do not produce commercial outputs to fund their operations (Omura & Forster, 2014). Many nonprofit leaders are under pressure to meet payroll, cover program expenses, and otherwise stay within tight budgets. Such perpetual issues often consume the attention of nonprofit managers, with little to no time to seek out endowment funding. However, to the extent an endowment comes about through an event like a major bequest, the situation affords nonprofit leaders an opportunity to look beyond a short-term emphasis and engage in long-term planning to provide some degree of financial sustainability for the organization. The endowment contributes to an organization's financial stability and provides a source of funding for important initiatives (Spitz, 1999). Endowments therefore help diversify an organization's income stream (Rottkamp & Bahazhevska, 2016) and reduce its dependency on annual fundraising campaigns, and the like, which often prove to be unpredictable sources of income. Endowment accumulation provides a financial buffer against the adverse effects of business cycles and serves to maintain the long-term reputation of the organization (Hansmann, 1990). In other words, an endowment can serve to smooth out the overall income stream of the entity.

Endowments are also beneficial to donors. An endowment offers donors the option of providing to a cause of intrinsic value to them, and external value to many, with a gift that gives perpetually, well into the future. Endowment giving affords donors the opportunity to contribute to the long-term viability of the nonprofit and perpetuate values from one generation to the next (Calabrese & Ely, 2017). By providing a capital base, donors can gain some measure of assurance that the organization will be around to serve others in the future.

In summary, a sound system of controlling and managing endowments serves both the entity and the donor and is a primary element of the study. Having a system to track endowment related documentation helped ensure proper classification and aided the nonprofit in its reporting and accountability. Ensuring endowments are properly classified helps to provide assurance to donors there contributions were properly utilized. This study focused on the documentation systems three related Midwestern nonprofits use to manage endowment funds.

Instances of Misappropriation of Endowment Assets. Nonprofits are at risk of losses and misappropriation of assets. Nonprofits are legally and ethically responsible for the proper stewardship of gifts according to donor intent (Bernstein et al., 2015). Any loss or misappropriation has an adverse impact on the reputation of the nonprofit and it threatens future donations, which would be vital to address its mission. Rossouw (2006) stated donor-imposed restrictions have specific implications for the accounting records and financial reports of nonprofits; including prescribed practices related to the recognition of donations, causing problems for many nonprofits. Hofmann and McSwain (2013) observed that donors and creditors of nonprofits experience agency problems with managers; because resource providers do not possess full decision-making rights and because management does not entirely bear the wealth effects or financial risks related to its decisions. Lippman and Grimmer (2016) noted donors have a responsibility to determine whether future bequest restrictions are appropriate, but went on to say, it can be unreasonable to expect donors to monitor the viability of restrictions particularly where the capacity of said donors becomes diminished and/or impaired. Examples of the misuse of funds and the improper handling of endowments spans many decades and some examples from the literature were noted.

The income from a donation of commercial real estate made to a nonprofit community center in 1958 was to benefit indigent families (Bernstein et al., 2015). However, from 1958 to 2006, the property was leased to various parties with the income going to support operations, overhead, maintenance, and other organizational activities of the community center; this seems to clearly violate the original intent of the donor (Bernstein et al.). Only a few persons affiliated with the nonprofit for years were aware of the restriction (Bernstein et al.).

In 1994, the University of Michigan School of Journalism Director filed a lawsuit in state court alleging the university did not renew his contract because of his role in exposing fraudulent uses of school endowment funds (Fitzgerald, 1994). Examples noted by Fitzgerald included where funds intended to pay for visiting professorships and research were instead being diverted to faculty travel and research beyond what was intended and money earmarked so the journalism faculty could more closely supervise students during professional internships was being diverted to pay the salaries of lecturers. An audit released in May 1994 confirmed the abuse (Fitzgerald).

In July 1998, the Allegheny, Health, Education, and Research Foundation (AHERF) became the nation's largest nonprofit bankruptcy failure at the time totaling $1.3 billion (Burns, Cacciamani, Clement, & Aquino, 2000). Burns et al. noted contributing factors to the failure as growth fueled in part by undisclosed raids on hospital endowments. Burns et al. went on to say the endowment funds were commingled with other resources as part of a complex structure that allowed two top executives to transfer funds as needed and manipulate financial results to appear favorable.

During the 1990s, there were two bequests made from the same family to become a part of a permanent endowment to the Long Island College Hospital with only the income from the endowment being available for yearly expenditures (Lippman & Grimmer, 2016). Lippman and Grimmer noted, less than one year after receiving the funds the organization had used the permanent endowment to secure financing through a *cy pres* court petition. The *cy pres* doctrine allows the court to amend the terms of charitable gifts yet do so in such a manner that holds as closely as possible to the original intention of the donor. Within 15 years, the hospital ceased to exist having expended the funds at the discretion of the board and with court approval (Lippman & Grimmer).

In summary, the above noted failures are but a few examples where endowments have been misappropriated. This research and literature review were not designed to be exhaustive in this area, but rather to point to a few examples of misappropriation. Oftentimes, misappropriation is unintentional with donor intent being lost over time due to the lack of a sound system of supporting documentation. Without a proper system of managing supporting documentation, a nonprofit is at risk of misusing and misreporting its endowment assets. This study focused on the documentation systems three related Midwestern nonprofits used to manage endowment funds to help ensure misappropriation did not occur.

Nonprofit Governance

Nonprofit organizations require incorporation and registration at both the state and federal levels within the U.S. A disclosure of the mission of such entities is a part of incorporation and registration. Additionally, nonprofit governance requires the naming of a board of directors to serve in a fiduciary capacity and provide oversight of the organization.

Management control systems. O'Grady, Rouse, and Gunn (2010) observed management control systems encompass the entire structure of an organization and the information-based routines, procedures, processes, and practices of an organization that are used to influence the attainment of its goals. Management control describes the means by which the actions of individuals or groups within an organization are constrained to perform certain actions while avoiding other actions in an effort to achieve organizational goals within an established timetable (Malmi & Brown, 2008). Vasile and Croitoru (2013) posited that management is responsible for the design and implementation of the management control systems to help the organization achieve its objectives.

Malmi and Brown (2008) observed while studying management control systems that there is a need to define the purpose of management controls. Malmi and Brown (2008) noted the overall role of management controls being to promote the congruence of goals and behavior, and went on to say management controls constitute the systems, rules, practices, values, and other activities put in place by management in order to impact behavior. Straub and Zecher (2013) noted management control is not merely a limitation on human behavior but rather a design to ensure adequate operations. In order to achieve organizational objectives management must develop qualitative and quantitative indicators for measuring performance (Vasile & Croitoru, 2013). There are generally three components to management control: (a) setting standards, (b) measuring actual performance, and (c) taking corrective action.

A standard process for management control would include the following steps: (a) a comparison of actual performance with planned performance, (b) the measurement of the difference between the two, (c) the identification of causes contributing to the difference, and (d) with the taking of corrective action to eliminate or minimize the difference. Management representatives analyze the performance of the organization and its results to determine whether objectives are being met (Vasile & Croitoru, 2013).

Gond, Grubnic, Herzig, and Moon (2012) described how management control systems influence strategy. While one might not think of endowment accounting as being strategic, it cannot be denied that a threat to or risk for the nonprofit would be in negative publicity from the mismanagement of endowment funds. It is important to consider the role of information-based management controls in minimizing uncertainty and risk.

Ahrens (2018) noted the importance of how intertwining the organization and management control systems contributes to shaping the organization and how it becomes indispensable to its functioning. Categorization of management control occurs in a number of ways but classification is often normative or regulative and can be formal or informal. Normative controls pertain mostly to cultural organizational norms and relate to what is acceptable or unacceptable behavior; however, normative controls can also include the development of the corporate identity, its mission, vision, and values (O'Grady et al., 2010). Regulative controls are rooted in the policies and procedures of an organization. Both normative and regulative controls influence the management of endowments. However, the primary focus of this research is on regulative controls within the management control framework as it pertains to the endowment documentation process.

Ahrens (2018) described the practices of an organization as being those developed or shaped by practitioners, scholars, consultants, regulators, and the like, and thus making up the organization. One objective of regulative management control would be to put policies and procedures in place that help the organization achieve its financial reporting, accountability, and stewardship objectives. For example, one objective would be to manage endowments based on the donor's wishes and for the benefit of those served. Another would be to achieve management's objectives related to financial reporting and the compliance requirements of external parties. In these instances, and others, management will want to have regulative management controls in place to ensure the meeting of objectives.

Freidank, Haldma, and Velte (2014) discussed corporate governance and management control in their research. Freidank et al. noted the significant impact of corporate governance reforms on management control. There is a translation of standards stemming from regulatory reform into those standards used to manage organizations more effectively (Freidank et al.). Nonprofit organizations must adhere to various laws, regulations, and accounting pronouncements in their management of endowments. Tessier and Otley (2012) described how organizations must implement technical controls to comply with laws such as the Sarbanes-Oxley Act of 2002. Many of the reforms have influenced management controls as they pertain to the powers and responsibilities of the board of directors, audit committees, and the like. Corporate governance requires management have the requisite skills to perform the tasks of assessing the results of management controls (Vasile & Croitoru, 2013).

Salvioni (2005) observed corporate governance requires both proprietary and risk monitoring control activities. Salvioni (2005) noted corporate governance processes are supported by sound internal control systems as they are designed to supply important decision-making elements; “provide validity to the intermediation function between stakeholder expectations and management behavior; ensure compliance with laws and internal regulations; ensure completeness and transparency of communications from management” (p. 43) and external parties. Persons within management performing management control procedures from the top-down can produce a good system of internal control, a subset of management controls, for the smaller nonprofit entity designed to help it achieve such goals.

Within the realm of accounting for endowments, nonprofits will necessarily want to have pertinent governance and control systems in place that help it achieve its objectives. One must consider accountability to various stakeholders in developing practices that shape behavior. One also needs to consider required control procedures to ensure proper reporting and accountability to external parties.

The role and responsibilities of the nonprofit board. Dent (2014) stated that the board of directors of a nonprofit has not only the power, but also the obligation to set the direction of the organization and that it would constitute a breach of its responsibilities to delegate this function to another. Liu (2010) classified board responsibilities into three primary categories: (a) duty of care, to take care and exercise prudent judgment while in the process of making informed decisions; (b) duty of loyalty, to act in good faith in advancing the interests of the nonprofit; and (c) duty of obedience, which demands adhering to all applicable laws and regulations, as well as, the mission of the nonprofit, its bylaws, and other standards of behavior. Bartholomew (2015) noted of duty of care, that it involved, among other things that members are to maintain financial accountability, including the responsibility for aversion of mismanagement and theft. Bartholomew opined that duty of obedience meant not only complying with applicable legal requirements, but also maintaining all legal documents.

The directors of nonprofits have a fiduciary responsibility to manage endowment funds with the benefit of their organizations in mind and should ensure the appropriate use of the organization's assets (Liu, 2010). Directors act in an oversight capacity. Directors do not need to be financial experts, but rather ensure the proper level of legal and financial expertise is utilized to safeguard assets and provide for their prudent management. Oftentimes, investment management and financial reporting necessitates outsourcing to various parties with specific skill-sets, such as investment advisers, legal counsellors, and CPAs. Gordon (2013) found smaller nonprofits rely heavily on their external CPA firm to keep them apprised of new accounting guidance. However, directors are not absolved of their responsibilities related to financial oversight as it is their core imperative (Bartholomew, 2015), and thus should carefully evaluate periodic financial reports, using an attitude of constructive skepticism to protect the interests of the organizations they serve.

Ellis (2011) and Fishman (2014) observed that the governing body is ultimately responsible for monitoring the organization's endowments. The board often has an investment or finance committee which oversees drafting an investment policy for endowment funds (Fishman, 2014) and serving as the center for good governance of endowments (Ellis, 2011). Ellis distinguished between governance and management, and noted certain basic elements that should be included in an investment policy: (a) the criteria to be used in identifying and selecting an investment manager; (b) the risk tolerance and return objectives of the entity in keeping with a board's fiduciary responsibilities to guard its assets; (c) the manner in which the risk and return objectives correlate with the spending policies of the organization; and (d) the strategies necessary to ensure the achievement of those objectives.

The board should develop a spending policy that provides sufficient detail as to the extent of disbursement of endowment funds. Spitz (1999) proposed investment policies be designed in such a manner as to provide for reasonably predictable payouts from anticipated growth while preserving the principal sum of any endowments as adjusted for inflation. Policies should always ensure compliance with any donor- or board-imposed restrictions or designations that may apply.

In the case of a true or permanent endowment, this would mean the policy should help the organization ensure the maintenance of the endowment's principal funds. With respect to a nonprofit's board-imposed restrictions or designations, the policy should sufficiently outline the procedures the organization must undertake to change course. A payout policy as established dictates required calculations for determining the annual withdrawal amount. Waldeck (2009) stated the yield of the endowment must equal at least the annual budget increase plus the required payout amount to preserve the size of the endowment. Brown, Dimmock, Kang, and Weisbenner (2014) found in a study of university endowments that a payout of five percent of the prior three-year value of endowments is a typical policy and helps smooth payouts levels.

The board should ensure its policies address financial reporting and disclosure. Khumawala and Gordon (1997) observed good reporting involves the provision of complete, unbiased information that allows donors to make informed decisions based on criteria they think to be most appropriate. Cohn (2015) found users of nonprofit financial statements are primarily concerned with gaining a better understanding of how nonprofits use their resources and what is available to them. Yaacob et al. (2015) noted the ever increasing demands of stakeholders for information regarding efficient management of assets and disbursement of funds. Gordon, Khumawala, and Parsons (2001) observed that for stakeholders of nonprofit entities to benefit from accounting and financial reports, it is imperative the information as reported properly reflects the underlying economic situation of the organization. Khumawala and Gordon (1997) stated financial reporting is one way nonprofits meet their requirement to be accountable as such entities are not held accountable by the electorate nor are they subject to market forces as a business organization would be. Rossouw (2006) opined the disclosure of restrictions allows the users of financial statements to discern more readily the financial position of the nonprofit organization.

Harris (2014) described the role of board diversity and it impact on the success of nonprofits with one component being board expertise. Financial experts are those who possess an understanding of generally accepted accounting principles and financial statements (Harris). The directors should ensure that appropriate disclosures through financial reporting, including identification of specific endowment funds along with any applicable donor restrictions or board designations. Such reporting would be in keeping with applicable accounting standards.

Georgiades (2015) described the essential nature of written representations from management and those charged with governance to the audit process. Georgiades stated representations are an essential component of audit evidence, providing written documentation as to an entity's responsibility regarding the preparation, fair presentation, and completeness of its financial statements. Georgiades pointed out that management acknowledges in its representations to auditors that it is responsible for, among other things: (a) the preparation and fair presentation of financial statements in accordance with GAAP or other applicable framework; (b) the design, implementation, and maintenance of a system of internal control; and (c) the information provided to the auditor as to completeness of transactions in the financial statements. Such information would include the proper classification and reporting of endowment funds within the financial statements, including the proper classification and recognition of revenues and the classification of net assets as to restrictions and the like. A system of maintaining the proper supporting documentation related to endowment classifications will allow management to substantiate the accuracy of its representations.

Burks (2015) observed audits by CPAs of a nonprofit's financial statements and disclosures serves to reduce or prevent reporting errors, which have a negative impact on stakeholders. Maintaining a proper system for managing documentation pertaining to endowment funds will help those preparing accounting records and reports, as well as those auditing financial statements and notes, to ensure endowment funds are properly classified. The board in its role of governance should ensure a proper system is in place to manage and maintain the supporting documents required to establish donor-imposed restrictions or board designations of endowment funds for purposes of auditability and accountability.

Governance Systems and the applicability of provisions of the SOX Act. Nonprofits find themselves under pressure to be financially responsible and transparent. The SOX Act was a response to corporate accounting scandals resulting in fraud and malfeasance. The SOX Act applies to publicly traded companies and requires them to adhere to standards of governance that increases the role of the board in overseeing financial transactions and audit procedures.

Archambeault, Webber, and Greenlee (2015) observed the vulnerability of the charitable sector to fraud losses. Owen (2004) observed several factors that make nonprofits susceptible to fraud: an overall environment of trust within the entity; a consistent flow of donations; the use of volunteers to perform essential tasks; limited resources to devote to supervision and investigation; and unpaid boards with little or no financial expertise. The SOX Act, while meant mostly for the business world, provides a blueprint for nonprofit financial accountability as well (Iyer & Watkins, 2008).

Greenlee, Fischer, Gordon, and Keating (2007) stated fraud among nonprofits might be on the increase. Greenlee et al. noted fraud might be easier to perpetrate in nonprofits by stating that there generally exists an atmosphere of trust, difficulty in verifying certain revenue streams, weaker internal controls, lack of financial expertise, and reliance on volunteer boards as being contributing factors. Wells (2005) described types of occupational frauds. One is the misappropriation of assets is one type of fraud that occurs when an organization’s assets are misused or stolen (Wells). Another is financial statement fraud where there is a deliberate falsification of the financial information as reported (Wells). Greenlee et al. (2007) found asset misappropriations accounted for more than 97% (p. 686) of all frauds reported.

Cordery et al. (2017) observed there is a call for greater accountability and transparency within the nonprofit sector because of scandal and mismanagement. Yallapragada, Roe, and Toma (2010) noted a spate of malfeasance and fraud in many high-profile nonprofits has caused state and federal legislators to consider extending SOX Act provision to nonprofits. In fact, California has adopted the Nonprofit Integrity Act, which incorporates SOX Act provisions, and the IRS redesigned Form 990 in 2008, which also extends certain SOX Act principles to the nonprofit sector (Lee, 2016).

Smith and Richmond (2007) noted the increased need of nonprofits for donor funding, community support, and public confidence make certain provisions of the SOX Act as beneficial to the sector. Nezhina and Brudney (2012) noted many provisions from the SOX Act deemed relevant to nonprofit organizations including a whistle-blower protection policy, document preservation policy, annual or biannual external audit, audit partner rotation, audit committee of board, separation of audit and non-audit services, and basic financial training for board members. Nezhina and Brudney went on to note the requirements of CEO attestation to accuracy of financial documents and open access to financial statements and audit reports. Smith and Richmond (2007) observed many responsible nonprofits have been using the SOX Act as a guide for their own financial practices.

Archambeault et al. (2015) found many nonprofits have voluntarily adopted SOX corporate governance requirements related to internal control. Mead (2008) and Nezhina and Brudney (2012) noted two provisions of the SOX Act that are required for nonprofit organizations: prohibitions against whistleblower retaliation and the provision concerning document retention. Incorporating SOX Act practices can only improve the accountability of a nonprofit and provide needed transparency for their financial activities (Johnson, 2009). Smith and Richmond (2007) stated provisions of the SOX Act might influence new standards of best practices for nonprofit corporate governance, as many of its provisions are transferrable.

Nezhina and Brudney (2012) noted benefits of SOX Act adoption by for profit entities include: increased understanding, communication, and effectiveness of business processes; uncovering of potentially damaging internal control weaknesses; development of more robust risk management practices; a reduction in fraudulent activities; and increased effectiveness of the board. While the benefits to nonprofits may not be the same as in the private sector (Nezhina & Brudney), Johnson (2009) stated using the SOX Act provisions to foster a strong, ethical, and transparent board governance mechanism could serve to improve nonprofit organizational outcomes. Many nonprofits are under pressure to adopt tougher internal control and accountability policies from donors and board members (Yallapragada et al., 2010).

The SOX Act requires a few disclosures, including information on internal control mechanisms, corrections to past financial statements, and material off-balance sheet transactions or adjustments. Benzing, Leach, and McGee (2011) noted Form 990, as revised by the IRS in 2008, requires nonprofits to answer questions related to board composition, independence, and conflicts of interest, and will eventually force all but very small nonprofits to rethink their models of governance. Current law already requires tax-exempt organizations to make their Forms 990 or 990-PF freely available to anyone who requests them.

The SOX Act requires the chief executive and the chief financial officers to certify the appropriateness of financial statements and they present fairly the financial condition and operations of the organization (Benzing et al., 2011). There are criminal sanctions for false certification, but violations of this statute must be known and intentional to give rise to liability. Any CFO who is responsible for generating timely and accurate financial statements for his or her organization should feel comfortable about certifying document integrity. A sound system of document retention and management related to endowment restrictions and designations is beneficial to enhancing the comfort level of those certifying financial information.

Nonprofits use the SOX Act to help govern the board of director's audit committee, requiring that each committee member is a member of the board and that he or she be independent. Greenlee et al. (2007) found current best practices include having a strong board of directors that creates an audit committee to detect and deter financial mismanagement and other fraud types. Vermeer, Raghunandan, and Forgione (2006) cited the applicability of the SOX Act in their research. Vermeer et al. noted the importance of audit committee composition to nonprofits in terms of effectiveness; they completed a study of large nonprofits showing that most have one or more board members considered financial experts as would be required of private sector entities under the SOX Act. While large nonprofits probably do have an audit committee that oversees the annual audit, Smith and Richmond (2007) found many smaller nonprofits operate without audit committees due to their size. The audit committee oversees the activities of the outside auditor. Baker and Collins (2005) noted the importance of the audit function in detecting noncompliance with donor instructions or restrictions. They went on to say to detect instances of noncompliance it is necessary to have proper source documentation such as, deeds, wills, and the like.

The SOX Act addresses destruction of litigation-related documents. The law makes it a crime to alter, cover up, falsify, destroy any document, or persuade someone else to do it, and to prevent its use in an official proceeding (Mead, 2008). The SOX Act turns automatic document destruction into a monitored, justified, and carefully administered process. A nonprofit organization should have a written, mandatory document retention and periodic destruction policy. Such a policy also helps limit accidental or innocent destruction.

No prescribed length of time exists for the retention of a document. Some documents may have lengths of time established by state or federal statutes or regulations; others by organizational needs that could go beyond anything established in the law, or that could vary by the type of business activity the nonprofit is pursuing; and still others based on historical or intrinsic purposes. The policy would cover all documents of the organization including those deemed permanent, such as board minutes documenting board actions to restrict or designate funds, and donor provided documents denoting permanent endowments and the like. Nonprofits should keep in mind the broad scope of documents to retain.

Summary. Within the realm of accounting for endowments, it is vital that nonprofits have pertinent governance and control systems in place that help it achieve its objectives. Accountability to stakeholders is but one aspect that needs to consider in developing practices that shape behavior. Another focus is the risk of noncompliance and the control procedures required to ensure proper reporting and accountability to external parties. This study focused on the governance and documentation systems with related controls that three affiliated Midwestern nonprofits used to manage endowment funds to ensure accountability to stakeholders and sound financial reporting.

Internal Controls and Nonprofit Accounting Systems

The board of the nonprofit and its management are also responsible for maintaining a system of internal control which is designed to ensure the organization achieves its objectives in operational effectiveness and efficiency, producing reliable financial reports, and complying with laws, regulations, and policies. Many nonprofits have adopted best practices provisions of the

SOX Act corporate governance requirements related to internal controls (Iyer & Watkins, 2008). Turpen (2015) noted internal control represents the entirety of the proactive actions taken by an organization to ensure the achievement of its objectives and stated a nonprofit that does not follow an established framework of internal control puts its credibility and funding in jeopardy.

Internal control is integral to practically every activity a nonprofit undertakes ranging from basic to strategic (Turpen, 2015). Internal controls are important to endowment funds in financial reporting and safeguarding plan assets. Effective controls reduce the risk of asset loss or misclassification or misappropriation helps ensure endowment related information is complete and accurate, financial statements are reliable, and that the endowment follows laws, regulations, and applicable accounting pronouncements. A system of maintenance of source documentation related to the establishment of endowments such as wills, trust documents, and the like, as well as board resolutions creating restrictions or quasi-endowments would necessarily be included in a sound internal control structure.

Two recently released internal control frameworks are the updated Internal Control Integrated Framework from the Committee of Sponsoring Organizations of the Treadway Commission, known as the COSO framework, and Standards for Internal control in the Federal Government from the Government Accountability Office (GAO), commonly referred to as the Green Book, modelled after the COSO framework. The COSO updated its original internal control framework from that issued in 1992 to help organizations, including nonprofits, adapt to changes in their business and operating environments by addressing issues related to enterprise resource planning (ERM) and provisions of the SOX Act, among other things, as noted by Janvrin, Payne, Byrnes, Schnieder, and Curtis (2012). The COSO framework is a private sector initiative and the Green Book applies to federal agencies, although there is no requirement of adoption, they both serve as important guides to nonprofits. There are five components of internal control: the control environment, risk assessment process, control activities, monitoring of controls, and the information system.

The control environment sets the tone of the organization, which influences the control consciousness of its people. Johnson (2009) observed the nonprofit management environment is vulnerable where there is a lack of training, resources, experience, and support. Dent (2014) warned of board dysfunctions and cautioned that directors of nonprofits are oftentimes disengaged, they are often deeply flawed, and they frequently, seriously underperform. Lee (2016) suggested that environmental and organizational factors have a direct bearing on the adoption of new policies. Schwarzkopf, Osterheld, Levy, and Hall (2008) stated it is important to gain an understanding of the environment to identify factors affecting governance change. The internal control environment includes: (a) promoting integrity and ethical behavior; (b) being committed to competence; (c) adequate participation and oversight by the board of directors and its audit committee; (d) the philosophy and operating style of management; (e) organizational structure; and (f) assignment of authority and responsibility, among other things.

Rubino and Vitolla (2014) pointed out areas within the control environment that constitute material weaknesses, including inappropriate tone at the top and inconsistent application of accounting policies. The control environment could affect accounting for endowments as the board of directors and senior management could have an attitude that fails to stress the importance of properly documenting, recording, reporting, and utilizing endowment funds. Management could also inconsistently apply accounting policies in accounting for endowment funds and thus jeopardize donor or board intent for their use. Maguire (2014) opined that the control environment should be established and communicated from the top down, and for the following of prescribed policies. Greenlee et al. (2007) stated improving the quality of the board of directors could improve accountability, often done through creating a positive work environment or setting an ethical tone at the top. A sound internal control environment provides discipline and structure as a foundation for all other components of internal control. Control is central to the management of organizations and involves multiple persons and a product or influence on behavior (Byers, Anagnostopoulos, & Brooke-Holmes, 2015). The attitudes of members of the board of directors regarding document retention and management contributes to the overall control environment.

The board and management should perform a risk assessment to identify and analyze the relevant risks associated with the organization being able to achieve its objectives. Johnson (2009) noted the SOX Act provision requiring a management assessment of internal controls as being something voluntarily adopted by nonprofits. Schwarzkopf et al. (2008) opined concerning internal controls as it pertains to risk management provisions and risk assessments as being important to evaluating risks in key areas such as those related to strategy, reputation, operations, and financial concerns. Nezhina and Brudney (2012) stated a review of internal control and financial reporting processes can provide a better understanding of risks and control weaknesses. The board and management should include within its risk assessments the risks and consequences of not having a sound document retention and management strategy.

With respect to accounting for endowments, there are risks related to such critical practices concerning the use of restricted funds for their intended purposes. Rubino and Vitolla (2014) discussed the risk assessment component and noted the related weaknesses of deficiency in the design and implementation of internal control over financial reporting and inadequate internal controls relating to the authorization, recognition, capture, and review of transactions, facts, circumstances, and events that could have a material impact on the company's financial reporting process. Each of these items has implications for endowment accounting. A properly designed internal control structure would necessarily include properly documenting endowments in such a way that facilitates properly capturing, recording, and reporting endowment funds.

Lippman and Grimmer (2016) opined concerning the responsibility of the donor organization's board, that when donations are other than cash or are restricted as to use, the organization, through its board, should determine the acceptance of the gift and/or to what extent the nonprofit will be capable of keeping any restrictions. Such information would generally be documented in board minutes; however, minutes of most nonprofits are not generally required to be made available to the public (Lippman & Grimmer). Risk assessment forms the basis for determining what risks need to be controlled and the controls required to manage them. Restrictions and designations placed on the use of endowment funds pose a risk of use for unintended purposes if proper attitudes concerning their management and controls are not in place.

Control activities are those policies and procedures put in place to mitigate risk and ensure the carrying out of management's directives in achieving its objectives (Maguire, 2014). Maguire stated the board and management of the nonprofit should set about to develop and document policies and procedures and deploy control activities throughout the organization to ensure such objectives are met. There are to be control activities within all levels of the nonprofit organization, at various stages within its processes, and over the information technology environment.

Hofmann and McSwain (2013) found potential donors want to be confident the nonprofit they support is going to use the contributions made in meaningful, efficient, and effective ways.

Rossouw (2006) stated the importance of reporting on how organizations have complied with donor-imposed restrictions is an important aspect of accountability and further described the related concept of stewardship as being an aspect of accountability. Control activities used in the management of endowment funds should include those designed to ensure the proper recording, use, and reporting of restricted and unrestricted funds as directed by the supporting documentation related to such gifts.

Internal controls rely on the principle of checks and balances within nonprofits as noted above. Archambeault et al. (2015) and Greenlee et al. (2007) found significant documentation regarding the lack of internal controls in nonprofits. The board and other nonprofit personnel should be competent and trustworthy with an understanding of their required duties as described in job descriptions, procedures manuals, organizational charts, and the like. Where it involves endowments, management should hire or retain those knowledgeable about the management of and reporting on such funds. In addition to being committed to effective and competent personnel, the board and management of the nonprofit must be committed to other components of the control activity as follows.

Authorization Procedures need to include a thorough review of supporting information to verify the propriety and validity of transactions. Byers et al. (2014) found a source of control in nonprofits comes from the source of financial support; this would include the ‘strings’ attached to the donation or donor-imposed restrictions. Approval authority is to be commensurate with the nature and significance of the transactions and in compliance with the policies of the nonprofit. Where endowments are concerned, supporting information includes the original documents establishing the endowment funds and denoting any limitations on use or other restrictions, including any board designations.

Segregation of duties reduces the likelihood of errors and irregularities. Gallagher and Radcliffe (2002) noted segregation of duties is a basic internal control step where an individual is not to have responsibility for more than one of the three transaction components: authorization, custody, and record keeping. Those in charge of endowment funds should maintain the proper documentation to allow for the assets to be maintained as per donor wishes or board restrictions, and the activities of these funds should be properly recorded in the nonprofit's accounting records and reflected in its reports. Separate oversight of these activities is essential to the prevention and detection of errors or irregularities.

The information system accounts for endowment funds. Baker and Collins (2005) opined concerning the relevance of accounting information and reporting systems in the detection of poor financial management including financial incompetence, acts of fraud, and noncompliance with donor instruction. Rossouw (2006) described the use of fund accounting as an important method and management control in accounting for donor-imposed restrictions. Nonprofit organizations use fund accounting systems. Different funds account for assets with donor-imposed restrictions as a matter of control. Special funds are separate from the organization's general fund. Hofmann and McSwain (2013) stated valuation and stewardship are primary roles of accounting information within the nonprofit sector. Fund accounting helps facilitate better stewardship by aiding the nonprofit in complying with donor-imposed restrictions and recording related income.

Rubino and Vitolla (2014) noted of the information and communication component certain items constituting material weaknesses, which could have a bearing on endowment funds. The lack of appropriate documentation to support journal entries as noted by Rubino and Vitolla could cause the improper recording of endowment funds, thus being misreported, and ultimately misused. The purpose of documentation and record retention is to provide reasonable assurance as to the accurate recording and retention of all information and transactions of value. Board-established procedures govern the maintenance and controlling of records.

In summary, the proper documentation of endowment funds is essential to ensuring the nonprofit is not at risk of improperly using donated resources. The subject of this research is concerned with to what degree nonprofits have properly documented their endowments as to restrictions and designations, thus helping to ensure their proper use and reporting. A sound system of internal control as aided by the accounting system in use will help ensure proper classification and use of endowment assets.

Financial Reporting and Related Standards

Fischer, Gordon, and Kraut (2010) observed two different bodies regulate financial reporting requirements for nonprofit entities. Engstrom and Esmond-Kiger (1997) stated FASB standards are applicable to the nonprofit, nongovernmental sector, such as private colleges and universities, and that GASB standards apply to the public governmental sector, including public colleges and universities. Fischer et al. (2010) noted the objectives for financial reporting espoused by each are not the same. The focus of the FASB is on decision usefulness or providing information that useful to providers of resources in making rational decisions about scarce resource allocation (Marsh & Fischer, 2011). Marsh and Fischer found while the GASB also supports “decision usefulness” and maintains that accountability is paramount in governmental financial reporting. Marsh and Fischer (2011) noted four types of differences between FASB and GASB pronouncements related to: recognition, measurement, display, and disclosure.

Gordon et al. (2001) stated donors are an important and distinct group of potential users of financial reports of nonprofit organizations and governmental units. Engstrom and Esmond-Kiger (1997) observed both the FASB and GASB cite user needs as a primary objective of financial reporting. Marsh and Fischer (2011) noted the extensive nature of the differences between FASB and GASB requirements requires financial statement users to have a sound understanding of such differences when making comparisons.

There are differences in the standards as it concerns endowments. The FASB recognizes endowment pledges as permanently restricted net assets, as previously described. However, the GASB prohibits recognition of endowment pledges because the primary restriction on endowments is the investment in perpetuity, an attribute not satisfied until the receipt of the funds (Marsh & Fischer, 2011). The difference in recognition between the FASB and GASB requirements has an impact on total assets, gift revenue, and net assets.

As it involves restricted non-endowment pledges, the FASB recognizes these as being temporarily restricted revenue with the pledge discounted to present value if due beyond a one-year timeframe from the date of the financial statements (Marsh & Fischer, 2011). GASB does not allow for the recognition if the pledge is for resources that will not be available for use in the current fiscal year (Marsh & Fischer).

FASB standards applicable to accounting for endowment funds come first, with a survey of some GASB pronouncements affecting endowment accounting described thereafter. Lastly, a there is a brief discussion of certain aspects of IRS Form 990. The intent of this review was not to be exhaustive in scope, but rather to demonstrate some examples from the authoritative literature of the need to maintain supporting documentation to substantiate reporting to meet such requirements.

A survey of FASB pronouncements. The accounting rules noted below as established by the FASB apply to all nongovernmental nonprofit organizations. As noted, nongovernmental nonprofits include private colleges and universities. However, the standards apply to many other types of private nonprofits as well. The FASB pronouncements are now a part of the FASB codification at Topic 958.

Standard No. 116. *Statement of Financial Accounting Standards 116 (FASB 116), Accounting for Contributions Received and Contributions Made,* was issued in 1993 and serves as the primary guidance relating to the recording of contribution revenue by nonprofit organizations. FASB 116 created new standards relating to the recording and presentation of contribution revenue, and introduced the terms restricted revenue and restricted net assets at the time of its issuance. Prior to the issuance of FASB 116, those in the accounting profession lacked guidance on accounting for contributions (Booker, 1994).

One primary impact of FASB 116 regarding unconditional contributions is to require that affected entities, including nonprofits, recognize all contributions as revenues by the recipient entity and expenses by the donor in the accounting period received or expensed at fair market value; the standard does not apply to intermediaries, agents, or trustees. In addition to cash contributions, Bostwick and Booker (1994) observed of the standard that revenue recognition would include other asset types such as, “securities, land, buildings, use of facilities or utilities, materials and supplies, intangible assets, services, and unconditional promises to give such items” (p. 20) at a future date. There are exceptions to the recognition of contributions of services, works of art, historical treasures, and similar assets.

Metzger (1996) stated the FASB requires accounting for discounted pledges or pledges of money of future periods. Metzger observed unconditional pledges that are restricted constitute revenue in the period when pledged, with the amount received in the current period recognized as unrestricted support. One should discount prior to recognition amounts received in future periods using an implicit interest rate and recognized as temporarily restricted (Metzger).

FASB 116 also addresses conditional promises to give. Conditional promises to give generally involve a promise to contribute to an organization upon the occurrence of certain future events. Booker (1994) noted the standard requires the recognition of conditional promises as revenue by the benefiting organization one the condition has been substantially met. Meeting and Luecke (1995) emphasized the importance of reviewing conditional donations periodically to determine whether the condition has been satisfied. Upon receipt of an asset, one records an asset liability or a refundable obligation until the condition is met (Meeting & Luecke). Promises to give require a special disclosure.

FASB 116 also requires nonprofits to distinguish between contributions received that increase net assets classified as permanently restricted, temporarily restricted, and unrestricted. Furthermore, there is a recognition requirement pertaining to the expiration of donor-imposed restrictions in the period in which such restrictions expire. Meeting and Luecke (1995) noted of permanently restricted donations, such as endowments, that these donations would be included in permanently restricted net assets and would necessitate future recognition of earnings that may be restricted or unrestricted based on terms established by the donor.

Standard No. 117. *Statement of Financial Accounting Standards 117 (FASB 117), Financial Statements of Not-for-Profit Organizations,* issued in 1993 with its focus being on financial statement reporting and net asset classification; its purpose is to enhance the relevance, comparability, and understandability of financial information while meeting the common needs of external users. FASB 117 created new standards relating to the nature and format of the financial statements that nonprofits must produce to follow generally accepted accounting principles, GAAP. The emphasis on financial statement reporting and net asset classification is in lieu of traditional funds or groups of funding sources. The net asset classes prescribed in FASB 117 aggregate contributions with like restrictions. The classifications are unrestricted, temporarily restricted, and permanently restricted.

FASB 117 includes the implementation of three required financial statements: a statement of activities, a statement of financial position, and a statement of cash flows. Locklear (1997) pointed out this standard does not preclude nonprofit organizations from also reporting fund information if it is deemed useful to financial statement users but will also need to conform to using the FASB 117 format to obtain a clean audit opinion. Booker (1994) observed the activities statement is comparable to a combined income statement and statement of retained earnings of a for-profit organization. FASB 117 requires contributions received be reported as either restricted or unrestricted support in the statement of activities.

FASB 117 mandates the classification of the statement of financial position between current and non-current assets and liabilities. FASB 117 requires that the statement of financial position report net assets based on the existence of donor-imposed restrictions. FASB 117 allows for a more detailed description of each item of net assets.

Harr and Frank (1994) noted of permanently restricted net assets that they include those with stipulations that never expire or cannot be fulfilled or otherwise removed by those within the organization. Temporarily restricted net assets include those with restrictions imposed by donors which will expire with the passage of time or for which the organization can take some action allowing it to meet the restriction. Temporarily restricted net assets can include: unspent gifts restricted for a specific operating purpose; promises to give to be received in future years;

and amounts received via a capital campaign that have yet to be expended for capital purposes (Harr & Frank). Harr and Frank stated unrestricted net assets are those with no permanent or temporary donor-imposed restrictions.

Two other changes required by FASB 117 include the addition of the statement of cash flows and the addition of certain note disclosures. FASB 117 amends FASB 95, *Statement of Cash Flows,* to extend its provisions to nonprofit organizations and expands the description of cash flows from financing activities to include certain donor-restricted cash earmarked for long-term purposes. Bostwick and Booker (1994) noted the requirements pertaining to disclosures affect, among other things, those related to unconditional and conditional promises to give.

Staff Position 117-1 and UPMIFA. FASB staff position *FAS 117-1, Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds,* provides guidance on the net asset classification of donor-restricted endowment funds that are subject to the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). FSP 117-1 also modifies the disclosures about an organization's endowment funds, those that are donor-restricted and those that have board designations, whether the organization is subject to UPMIFA.

Gordon (2013) noted the UPMIFA is an act governing the management of endowment funds held by charitable institutions and adopted by most states and territories that served as a triggering event for the development of FSP 117-1. The requirements of FSP 117-1 apply to any nonprofit organization that maintains endowment funds with donor-imposed restrictions. FSP 117-1 includes permanently restricted funds not specifically identified as endowments.

The disclosure requirements of FSP 117-1 are applicable to organizations that maintain donor-restricted funds and quasi-endowment funds, including those that are board-designated or otherwise identified internally as endowments. Brody (2012) stated of FSP 117-1 that disclosure information is to include that which will enable users of financial statements to understand the policies of the board pertaining to its endowment funds. Brody went on to say such disclosures should elaborate on the board's view of how it interprets the law as it relates to the classification of endowment funds with donor-imposed restrictions of the nonprofit.

Smith (2015) stated FSP 117-1 addressed the 'rigid' standards imposed by UPMIFA as to what is the permanently restricted portion of endowment funds. UPMIFA prescribed guidelines for the expenditure of a donor-restricted endowment fund, in the absence of overriding, explicit donor stipulations. Brody (2012) observed FSP 117-1 requires the boards of nonprofits to classify the portion of funds as permanently restricted that the board believes is permanently restricted. This classification is in the opinion of Brody the original gift amount or the historic dollar value.

UPMIFA provides detailed guidelines as to what constitutes prudent spending and explicitly requires consideration of the duration and preservation of funds. Yaacob et al. (2015) noted the importance of regulation on accountability in their research. Generally, the UPMIFA requires the governing board of the nonprofit entity to establish a spending policy and guidelines related to a rebuttable presumption of imprudence for spending an amount exceeding seven percent in any one year.

Smith (2015) stated UPMIFA shifted the focus of prudent management to maintaining the purchasing power of gifts from maintaining the nominal value of gifts. UPMIFA eliminates that known as the historic dollar threshold established by the predecessor act, the Uniform

Management of Institutional Funds Act (UMIFA). The historic dollar threshold is an amount below which an organization could not spend from the endowment fund. Galle (2017) observed the most important provision of UPMIFA freed nonprofits from restrictions on spending where funds were deemed to be ‘underwater’ or those whose assets had fallen below their historical value at donation. Where the focus of UMIFA was on the prudent spending of the net appreciation of a fund, the UPMIFA focuses instead on the entirety of donor-imposed restrictions on endowment funds, which is comprised of the original gift amount, earned income, and any appreciation in the fund.

Update 2016-14. Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities,* as issued by the FASB, contains changes in reporting requirements and has a significant impact on how nonprofits communicate with their stakeholders. ASU 2016-14 improves or enhances the current reporting model and not an overhaul. The objective of ASU 2016-14 is to improve the way nonprofits communicate their financial performance and condition, while also reducing certain costs and complexities in preparing financial statements. Cohn (2015) stated one change is that regarding net asset classification which makes it easier for the board members of nonprofits to understand the entity’s unrestricted net assets.

A primary change for nonprofits as described in ASU 2016-14 concerns a reduction of net asset classification from three to two. The change from three to two classifications has an impact on nonprofits managing endowments, as they will report net assets without donor restrictions and those with donor restrictions by combining temporarily and permanently restricted amounts. Under ASU 2016-14, included in net assets with donor restrictions are donor-restricted endowment funds contributed with stipulations that the long-term investment of resources, for a specified period or in perpetuity. Included in net assets without donor-imposed restrictions are board-designated endowments, those designated for investment for a generally long, yet unspecified period.

The FASB continues to require that nonprofits disclose the nature and amount of donor restrictions on net assets with donor-imposed restrictions. Under ASU 2016-14, nonprofit organizations will emphasize the components of their endowments and other net asset classes based on external donor restrictions and board designations through disaggregation and disclosure. A new requirement of ASU 2016-14 is to make mandatory the previously optional requirement that disclosures be made of board designations on net assets without donor restrictions. Cohn (2015) noted in going to two classes of net assets the disclosure requirements were going to be more robust, so the reader can get a better understanding about the timing, purpose, and use of funds.

A board-designated endowment fund could also include a portion of net assets with donor restrictions that were not restricted for investment in perpetuity. For example, if a nonprofit receives a contribution designated for a purpose but is unable to spend the contribution in the near term, and then the board might decide to designate the funds for long-term investment, despite the absence of a donor restriction to that effect. Investment returns on donor-restricted endowment funds are free of donor restrictions, unless their use is limited by a donor-imposed restriction or by law. In the U.S., most donor-restricted endowment fund earnings are subject to UPMIFA, which extends the donor’s restriction to the investment return until appropriation of the funds for expenditure by the governing board. As a result, ASU 2016-14 requires the reporting of these returns within net assets with donor restrictions until appropriated for expenditure. The restrictions expire upon appropriation based on meeting all time and purpose restrictions.

An underwater endowment fund is a donor-restricted fund whose value has fallen below the original gift amount or the amount specified by the donor or by law. Previously, accumulated losses were a reduction of unrestricted net assets with the endowment fund presented in the required amount by the donor or by law. ASU 2016-14 changes this presentation and requires the accumulated losses to be included together with the related fund in the net assets section with donor-imposed restrictions. The change in presentation related to underwater endowment funds by the FASB to enhances the understandability and helpfulness of disclosures for such funds.

A survey of GASB pronouncements. As noted by Fischer et al. (2010) and Engstrom and Esmond-Kiger (1997) differences in financial reporting requirements for nonprofit entities exist as promulgated by the FASB and GASB. The accounting rules noted below as established by the GASB apply to all governmental nonprofit organizations; most notable of these are public colleges and universities. As noted previously, the difference in recognition between the FASB and GASB requirements has an impact on total assets, gift revenue, and net assets. A survey of some pertinent GASB pronouncements affecting accounting for and reporting of endowments follows.

Statement No. 33. GASB 33, *Accounting and Reporting for Non-Exchange Transactions*, implemented to establish standards to guide state and local governments as to when they should report the results of non-exchange transactions involving cash and other financial and capital resources. GASB 33 distinguished between two kinds of stipulations on the use of resources: time requirements and purpose restrictions. The time requirement stipulation specifies reporting for resources maintained in tact perpetually or until a specified date or event has occurred as with permanent and term endowments and similar arrangements (GASB, 1998). Purpose restrictions, such as with donor-imposed restrictions on endowments, requires the reporting of restricted or reserved fund balances depending on the fund-type (GASB).

Statement No. 34. GASB 34, *Basic Financial Statements – And Management's Discussion and Analysis – for State and Local Governments*, established new financial reporting requirements for state and local governments throughout the U.S. In addition to maintaining the reporting of funds as in the prior model, GASB 34 mandated the preparation of government-wide financial statements, designed to present a more comprehensive reporting to include a focus on the long-term stewardship of resources. The GASB 34 model also reports all revenues and all costs pertaining to the provision of services each year, not just those received or paid during the current year or soon after year-end.

One focus of GASB 34 is the reporting of net assets. The standard requires reporting net assets in three categories under GASB 34: invested in capital assets net of related debt, restricted, and unrestricted. Within the definition of restricted are permanent endowments or permanent fund principal sums and they reported in two additional components: expendable and non-expendable.

GASB 34 addresses the statements of revenues, expenses, and changes in fund net assets of proprietary funds. The statements are to distinguish between operating and non-operating revenues and expenses (GASB, 1999). The statements are also to distinguish between capital contributions, contributions to permanent and term endowments, special and extraordinary items, and transfers separately at the bottom of the statement in a way that shows an all-inclusive change in net assets (GASB).

Statement No. 52. GASB 52, *Land and Other Real Estate Held as Investments by Endowments*, requires endowments to report their land and other real estate investments at fair market value (FMV). Governmental entities are also required to report the changes in FMV as investment income and to disclose the methods and significant assumptions used to determine FMV, along with other information that the government reports for their other investments as reported at FMV. GASB 52 more appropriately reports resources available in endowments and align financial reporting with the objectives of endowments. GASB 52 requires the reporting of property held for similar purposes by comparable entities as reported in like manner. Reporting land and other real estate held as investments at fair value serves to enhance the ability of a user in his or her evaluation of an entity's investment decisions and performance (GASB, 2007).

Statement No. 72. GASB Statement No. 72, *Fair Value Measurement and Application*, generally requires state and local governments to value investments at fair value. The objective of the GASB is to enhance comparability of governmental financial statements by requiring fair value measurements of certain assets and liabilities using a consistent definition and accepted valuation techniques. GASB 72 expands fair value disclosures to provide comprehensive information for financial statement users as it regards the effect of fair value measurements on the financial position of a governmental entity.

GASB 72 eliminates the cost method for investments in common stock. One reports common stock at FMV unless the organization meets equity method criteria. However, GASB 72 excludes common stock held by endowments, including those classified as permanent and term endowments, and permanent funds from being reported using the equity method approach. The standard does require reporting of alternative investments held by endowments at FMV (GASB, 2015).

IRS reporting requirements – Form 990. Most nonprofit organizations are required to file an annual tax return with the IRS known as Form 990. The Form 990 return is informational and does not require the payment of taxes, as nonprofit organizations are tax-exempt. The Form 990 is one way to help ensure the nonprofit conducts business in a way that is consistent with the entity's mission.

The IRS requires Form 990 be made publicly available and provides an easy way for donors and other people interested in supporting a cause to find and evaluate the best charities to support. Archambeault et al. (2015) stated recent changes to IRS Form 990 serve to highlight an increased interest in information about the governance of nonprofits and any instances of material asset diversions occurring in nonprofits. Form 990 can serve as a public relations tool for a nonprofit when correctly and carefully completed.

Form 990 requires the inclusion of comparative balance sheets from the beginning of year (end of prior year) and end of year (IRS, 2016). The balance sheet is included in Part X of the form and requires organizations to report net assets or fund balances (IRS). Within this section, organizations are to denote unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets and total net assets if the organization indicates by check mark that it follows the guidance of FASB 117 (IRS).

As a part of Form 990, nonprofits are subject to a variety of disclosure and compliance requirements through various schedules, which are attachments to the form. Part IV of Form 990 is a checklist of required schedules where organizations are to complete the pertinent schedule if there is a "yes" answer to a question (IRS, 2016). Line 10 within Part IV asks whether related organizations exist that are used exclusively to hold endowments benefiting the purposes of the organization, whether FASB 117 is followed, and whether it held assets in temporarily restricted endowment, permanent endowment, or quasi-endowment funds at any time during the year (IRS).

Evidence found through research conducted by Harris, Petrovits, and Yetman (2015) suggested governance information contained in the Form 990 disclosures is useful to individual donors and others likely resulting in enhanced donations. Filing of schedules by organizations supplements, enhances, and further clarifies disclosures and compliance reporting made in Form 990. Often, filing of schedules is mandatory, but there are situations where organizations not otherwise subject to filing requirements may consider completing certain schedules beneficial despite not being technically obligated to. Archambeault et al. (2015) found many organizations do not comply with provisions requiring disclosures related to occurrences of fraud in their nonprofits or misreport, calling into question the reliability of required asset diversion reporting.

The Form 990 disclosures do not require but strongly encourage nonprofit boards to adopt a variety of board policies regarding governance practices. Yetman and Yetman (2012) noted Form 990 disclosures require answers to a series of governance, management, and disclosure questions with many of the items motivated by the SOX Act. However, many of the suggestions go beyond SOX Act requirements for nonprofits to pushing for the adoption of other measures, such as document retention policies. The IRS has indicated they will use the Form 990 as an enforcement tool. IRS regulations state that an organization must provide copies of its three most recent Forms 990 to any person making such a request; making transparency through appropriate disclosure an important issue.

Gordon (2013) found audits often serve as a primary source of relevant data, with IRS Form 990 being an alternate source of information for many. The form requires a signature from an officer of the organization. Research from several studies reveals that the accuracy of these forms leaves much to be desired (Gordon). Many of the errors in the Form 990 relate to failures to send a complete form, including Schedule A. Greenlee et al. (2007) noted donors and regulators frequently rely on various ratios generated on Form 990, yet in many instances underreporting occurs, including presenting an inaccurate report on fundraising costs, therefore distorting the financial picture of the organization's operations.

It is imperative that nonprofit organizations examine their financial systems, policies, and reporting to help improve the accuracy and completeness of these forms. Regardless of whether the CEO and CFO certify the financial report, the board has the ultimate fiduciary responsibility for approving financial reports. Just as the financial and audit reports are reviewed and approved by the audit committee and the board, the Form 990 or 990-PF should also be reviewed and approved. Maintaining an appropriate system of managing supporting documentation will be useful in substantiating IRS filings.

Summary

A sound system for classifying and managing endowment funds will help ensure proper accounting and classification with regard to applicable accounting pronouncements. Additionally, such a system will help managers with their fiduciary responsibilities and accuracy in financial reporting. The focus of this study was how three related Midwestern nonprofits control and manage endowments with one aspect being the proper classification for accounting and financial reporting purposes.

Document Retention and Management

A proactive approach to document management and records retention is essential to good governance, decision-making, and risk management (Barrett, 2007). Barrett noted the relationship between information management, governance, and accountability and stated organizations need to have a good understanding as to how to document activities, decisions, and transactions adequately for legal and accountability purposes. Upon creation of an endowment, there are generally guiding documents, such as a trust instrument, or other written documentation of donor intent, or simply a corporate resolution by the board of directors that establishes the endowment and expresses the guidelines for its use. The guiding documents may literally restrict the use of the endowment funds. For example, the guiding documents may require interest earned each year be dedicated to specified purposes. If the donor does not articulate a specific purpose, the board of directors may express the use of the investment income in a board resolution.

Chase (2003) opined that to avoid legal issues pertaining to document destruction, one must properly follow and maintain a document retention policy; dissemination of the policy is required to those within the organization. Apke (2007) observed that organizations should retain documents for a variety of reasons: to maintain compliance with regulations and statutes requiring the preservation of documents, that such documentation may be required where future litigation occurs, and for the preservation of knowledge and information essential to the organization and its practices. Rodreck (2017) studied records management and found a high degree of correlation with positive audit outcomes and accountability. The basic framework of an organization's records retention policy should group all records into three distinct categories: must keep, want to keep, and destroy or delete. Must keep records include those maintained by all organizations pursuant to a general legal requirement, as well as those required to be maintained by a regulation governing the organization's industry.

Apke (2007) discussed the importance of anticipating potential future litigation when adopting a document retention policy. Stewart (2002) noted the relationship of document retention to litigation and observed that documents retained could turn into a smoking gun or hose used to exonerate the organization. Stewart stated a document destroyed when retention is required could land one in jail and/or otherwise cost them legally. Organizations have a duty to properly maintain documents affecting potential future litigation (Apke. 2007) and they should be retained for a period of time as may be required by law or regulation, or until they are no longer relevant to a legal dispute.

Stephens (2005) found in a study of publicly traded companies that a central focus of the SOX Act is the enhancement of audit integrity and reliability of audit reports. The provision of the SOX Act related to document retention applies to nonprofit organizations (Mead, 2008; Nezhina & Brudney, 2012). Stephens (2005) observed records management is a key component of a sound system of internal control and that a reliable record keeping system is a precondition for compliance with certain provisions of the SOX Act.

One should handle records relating to the establishment and administration of endowments, bequests, and donations carefully. Sundqvist (2011) stated evidential records elicit trust by the manner documented, and that trust and trustworthiness have received greater scrutiny recently as it pertains to record keeping practices. Many nonprofit organizations record donations made as a material endowment. Records that document a significant or noteworthy donation or endowment are permanent. One should review records of donations or endowments for any historical value as well.

In summary, document and retention is integral to a sound system of classifying and managing endowment funds. A sound system of document retention and management will help ensure the proper accountability and stewardship of an entity's endowments. The focus of this study was how three affiliated Midwestern nonprofits control and manage endowments with one primary aspect being the retention and management of all relevant documentation.

Transition and Summary

The nonprofit sector is a growing and increasingly important component within the U.S. economy. There has been an increasing emphasis on accountability within the nonprofit sector over the past several years with nonprofit organizations being under increased pressure to demonstrate stewardship and accountability for donated resources. The accountability for endowments has received attention within the literature with many scandals demonstrating misappropriation or misuse of assets with donor-imposed restrictions. For a nonprofit to achieve its objectives, its principals must ensure the proper use of its assets and management of its financial activities.

A review of the literature revealed much surrounding the topic of documentation and control within the context of nonprofit governance and accountability. The researcher has documented the nature of endowments, their types, and their importance to nonprofits and those they serve. Brief examples of some misappropriation of endowment assets has served to highlight the agency and accountability problem faced by nonprofits. A discussion of nonprofit governance, the responsibilities of its board, and the applicability of provisions of the SOX Act, and a discussion of internal control, has shed light on the fiduciary responsibilities of nonprofits. A review of the professional and academic literature concerning financial reporting standards, statutes, and requirements applicable to nonprofits has served to emphasize the often complex reporting and legal compliance requirements of nonprofits. In each instance, it was noted how a sound system of document retention and management is pertinent.

There is a significant gap in the literature with no study known to this author that is dedicated to the way nonprofits manage their endowment documents. As mentioned, the foregoing literature review discussed topics surrounding and relevant to document retention and management but did not address specifically how nonprofits document and maintain a system of document management to enhance accountability for endowment funds. The growing emphasis on accountability and stewardship in the nonprofit sector makes this study timely. The subsequent study will fill in gaps within the literature regarding how the management of documentation is vital to the proper accountability and stewardship of endowment funds.

Section 2: The Project

The financial management and reporting of endowment funds is of paramount importance to many nonprofit organizations. The way nonprofits control endowments, particularly how they document endowments, any related restrictions, and board designations to ensure good stewardship of a major source of funding and accountability to donors and other stakeholders, and the proper management of supporting documentation related to such restrictions and designations, is a major undertaking. The authoritative accounting literature promulgated by the FASB and GASB opine concerning what is required of nonprofits in their reporting and disclosures. The academic literature is scant concerning information on how nonprofits develop and maintain a system of control and documentation to substantiate compliance with accounting pronouncements. This study will fill in gaps within the literature related to the understanding and effective practice of accounting for endowment funds by nonprofit entities. This research explored the systems of accounting for endowments of nonprofits with the intent of documenting any shortcomings in practice and discussed some best practices related to management control and a system of maintaining related supporting documentation.

This section is sub-divided as follows. First, there is a review of the purpose of the study, the researcher's role, and a presentation of an overview of the participants. Second, there is an outline of the research method and design of the study. Third, there is a description of data collection, sampling instruments, and techniques. Finally, there is a discussion of the data analysis techniques used along with a consideration of how reliability and validity affects the study.

Purpose Statement

The purpose of this qualitative research was to explore the way certain affiliated Midwestern nonprofits document and control endowments, and whether they maintained an adequate system of documentation, to determine whether those studied are at risk of noncompliance with donor-imposed restrictions, board designations, laws and regulations, and applicable accounting pronouncements as it relates to their stewardship of a major source of funding and accountability to donors and other stakeholders.

Role of the Researcher

The researcher was actively involved in data collection for this study. The researcher used an intermediary to gain access to the three nonprofits chosen for the study. Based on the request for participation by the intermediary and subsequent assent by the executive director of each nonprofit, the researcher made contact and was responsible for obtaining the appropriate permissions and pertinent information affecting the accounting for endowments at each nonprofit.

The researcher developed the interview questions contained in the Interview Guide (Appendix A). The researcher designed the questions to elicit pertinent information related to the overall control environment, attitudes about internal control, and his or her understanding of documenting endowments in general within the nonprofit. The researcher used the questions in conducting face-to-face interviews with the appropriate person at each nonprofit to gain an understanding and the information noted above.

The researcher was actively involved in the collection of other data, gained permission to examine the existing system and related supporting documentation for endowments as to their classification. The researcher also inquired of those interviewed as to their understanding of the fiduciary responsibilities of the board, how the process of board designation works within the nonprofit, and the documentation of such designations. The researcher used the data gathered through face-to-face interviews, the examination of documents, and casual observation for analysis as to emerging themes, which were compared to the professional and academic literature and used together to develop a best practices guide in managing endowment funds.

The researcher worked through the Independent Review Board (IRB) and submitted the application and all required documents to obtain permission to conduct the study. The IRB approved the application and related items as submitted by the researcher. The researcher obtained all required permissions prior to the commencement of the study and related interviews.

Participants

The researcher used an intermediary to gain access to the three nonprofits that participated in the study. The executive director of each nonprofit agreed to participate in the study and granted access to endowment documentation and other personnel. The other personnel needed to gain an understanding of the control environment and operations with respect to endowment accounting agreed to participate in the study, provided information on internal controls and their role in accounting for endowments via interviews. The criteria used to select interviewees focused on those persons involved in the governance, accounting, and financial reporting of endowments within the nonprofits selected.

The participants were individuals who were employees of, or volunteers with, each respective nonprofit. The executive director and person serving as the accountant were selected and were employees who were more likely those with defined roles who engaged in the day-to-day operations of their respective nonprofit. The researcher interviewed a board member who is a volunteer with their respective nonprofit. While the study involved examining endowment documentation, the individuals described above were necessary participants of the study to gain an understanding of the control environment and operations of the entity as it concerned the study of how endowment accountability at that particular entity.

A working relationship with those individuals participating was established and maintained via email, telephone, and face-to-face contact as required. The researcher performed training as to the process undertaken by the researcher and the role of each participant in the study. The researcher obtained a consent form from the executive director of each participating nonprofit and others interviewed for the case study.

The confidentiality of the participating nonprofits and the individuals involved was a priority. The researcher was committed to performing a confidential study to protect the participants' known identities. This required that care be taken on the part of the researcher at a number of points in the study, such as, where the researcher identified the participants who would be suitable for the project, at the time the study was conducted with participant involvement, and during the time period since the data was obtained and studied, analyzed, and reported. The researcher used specific strategies to prevent compromising the identities of the participants or their opinions.

Where individuals at the respective non-profits consented to participate in the case study, steps taken safeguarded access to personally identifying information and its use. Data coding of information identifiable individuals. Additionally, the researcher secured data in such a manner as to allow only the minimum number of others trained in confidentiality requirements access. The researcher redacted any identifiable information included in direct quotations.

The researcher maintained security over data as obtained by keeping it secure from copy, theft, or other release. The researcher recorded or documented in Word or Excel much of the data obtained. Protection of data stored in electronic medium was a priority to preserve its security. Participant data, without identifying information, and coding list, with identifying information, were stored separately.

Research Method and Design

This qualitative case study explored the way certain affiliated Midwestern nonprofits control and manage endowment documentation and whether they have maintained an adequate system of documentation. The qualitative research explored how certain affiliated Midwestern nonprofits document endowments to ensure they are not at risk of noncompliance with donor-imposed restrictions or applicable accounting requirements over restrictions and designations. The researcher compared data gathered from this research to the literature to determine whether those studied were at risk of noncompliance with donor-imposed restrictions, board designations, laws and regulations, and applicable accounting pronouncements due to the lack of a proper system and documentation. This research added to the literature as it relates to the stewardship of endowments, a major source of funding, and accountability to donors and other stakeholders. This section describes the applicable method, design, and reasoning for a qualitative study.

Method. Stake (2010) stated of qualitative research that it involves studying the thing or the target of the research project. Stake defined qualitative research as the study of how things work. The thing studied is how certain affiliated Midwestern nonprofits document endowments and whether they have a system that captures the necessary documentation. Quantitative and mixed-methods approaches were determined to be inappropriate.

Creswell and Poth (2018) described characteristics of qualitative research used to study the *thing* as defined by Stake (2010) or research problem. Creswell and Poth (2018) stated qualitative research explores a problem or issue and where one requires a complex understanding of an issue. Characteristics of qualitative studies include a natural setting where researchers gather data in the field at the location where participants experience the issue being studied (Creswell & Poth). Qualitative research involves many methods in the collection of data through examining documents, interviews, and observation, among others, where the researcher is the key instrument (Creswell & Poth). Qualitative research was appropriate for this case study in looking at the *thing* of: how certain affiliated Midwestern nonprofits document endowments, and whether they have maintained adequate documentation.

Research Design. The research design employed in this qualitative research was the case study methodology. Specifically, a multiple-case study approach assessed whether certain affiliated Midwestern nonprofits had a proper system of endowment documentation in place in answering the research question posed. Creswell and Poth (2018) noted a case study begins with one identifying a specific case or cases requiring description and analyzation. Using a multiple-case study approach enabled an in-depth study of multiple affiliated Midwestern nonprofits controlling endowment funds.

Creswell (2016) observed the basic concept behind a case study research design is to pick a case, or in the case of a multiple-case study, several, and provide a description as to how a case illustrates an issue or problem. Yin (2014) stated doing a case study research would be preferred to other methods involving situations where the primary research questions are “how” or “why” type questions; the one performing the research has no or little control over behavioral events; and the focus of the present research involves a contemporary phenomenon, as opposed to a historical one. Yin went on to say the choice of whether to use a case study depends on the level of depth required to explain or describe some phenomenon. In reviewing the various qualitative approaches, the case study research design was the best choice for this study for the following reasons. From the standpoint of the focus of the research, the case study allowed for an in-depth description and analysis of the procedures, documentation, internal controls, and staff qualifications, among other things, as they related to ensuring a system exists for properly classifying endowment funds with respect to designations and restrictions as required by donors and accounting standards.

Creswell (2016) noted the researcher should clearly identify the nature or subject of the study, such as a group, an individual, an organization, a relationship, a community, a decision process, or a project. Creswell observed the evaluation of programs requires a case study design. Case studies lend themselves well to the study of an event, a program, or an activity (Creswell & Poth, 2018). The study of systems of endowment documentation as described fits within the context of a process or program. The research problem related to the study of the process of documenting endowments is best suited to a case study methodology where an in-depth understanding of multiple cases or organizations controlling endowment funds is required.

Cooper and Morgan (2008) studied and described case study research and its value in developing theory and informing practice in accounting research. Cooper and Morgan noted case study research is useful where it is necessary to understand uncertain or unique situations, among others. Cooper and Morgan observed the case study methodology is well suited as a research approach, particularly in performing certain accounting studies. Cooper and Morgan stated the case study methodology involves research of dynamic and complex phenomena where variables, particularly those that cannot be quantified are involved; where actual practices, including the details of significant activities are being studied; and where the phenomena being studied, interacts with and influences context.

Yin (2014) stated doing a case study research would be preferred to other methods involving situations where the primary research questions are “how” or “why” type questions. Cooper and Morgan (2008) note the importance of “how” questions to practitioners in describing the implementation of accounting pronouncements and innovations; case study research helps convert private knowledge of detailed procedures into readily available public knowledge. Cooper and Morgan found case studies aid in accounting studies of actors, accounting systems, and organizational practices. The case study design was appropriate to the present research as it involved the study of nonprofit organizations and their systems and practices of documenting endowments to comply with accounting pronouncements and legal requirements, especially those related to donor-imposed restrictions and board designations.

Population and Sampling

This study involved three related Midwestern nonprofits. Each nonprofit was the subject of a case study of how each particular nonprofit had documented endowment funds to determine whether they were at risk of noncompliance with donor imposed restrictions or applicable accounting requirements over restrictions and designations. A case study may be about single or multiple cases. It is possible to generalize from single cases, but multiple-case studies can strengthen or broaden such generalizations. This is similar to the advantages of performing multiple experiments. Because the study as a whole covered three nonprofits, it utilized a multiple-case study design.

This case study research defined each nonprofit organization chosen or its program for managing endowments as the basic unit of analysis. Multiple-case studies involve replication logic and not sampling logic (Yin, 2014). Replication logic was utilized where each individual case was considered to be a whole study with concurrent evidence being sought pertaining to the facts and conclusions regarding the management of endowment funds within the subject nonprofit.

Yin (2014) distinguished between literal replication *and* theoretical replication. Literal replication involves the design of one case study to corroborate the others. Theoretical replication in cases covers different theoretical conditions. In theoretical replication, one might expect different results but for predictable reasons (Yin). The nonprofits chosen are affiliated and uniform standards exist as to the management of endowment funds. The study predicted or expected similar results; therefore, the researcher used a literal replication approach.

Yin (2014) stated the number of case replications that one needs or prefers in his or her case study is discretionary as opposed to formulaic. Yin noted one advantage of the multiple-case study design is that the evidence coming from such studies is more compelling. The rationale for selecting the number of cases comes from the simplest multiple-case design approach where two or more cases selected are literal replications (Yin). Additionally, when one opts for a multiple-case study approach for purposes of generalizability the issue of how many cases to select becomes a problem; researchers generally prefer no more than four to five cases (Creswell & Poth, 2018). This study involved three affiliated nonprofits where generalizability was sought using a literal replication approach with similar results being predicted when compared with the prescribed standards.

Creswell (2016) found it is necessary to collect multiple sources of data with the objective of providing an in-depth perspective of the issues contained within the case. Interviews, observations, documents, and visual materials all provide quality sources for collection and analysis in a good case study (Creswell). The researcher conducted interviews of key personnel to gain an understanding of the control environment and understanding of necessary procedures used in endowment documentation. The primary criterion related to selection involved the link of the employee to accounting for endowments within the organization. The method of sampling these individuals was purposeful with the number of individuals selected based on his or her role within the organization, the size of the nonprofit and internal control mechanisms in place. Creswell stated of purposeful sampling that it is a process for selecting participants in a qualitative study based on their ability to inform the main phenomenon of the research.

The primary population of pertinent documents at each case study site related to the number of endowments under management. The number of endowments at each case study site was limited thus making statistical sampling not possible; therefore, the researcher haphazardly sampled endowment documentation to assess the effectiveness of the system in place. The researcher inspected other related documents where necessary to aid in the development of an understanding of the subject studied.

Data Collection

The methods employed in data collection are as described herein. The data collection and organization techniques used will be discussed. The data collection instruments and organizational techniques as developed address the problem and primary research question and aid in the assimilation of relevant information.

Instruments. One concept is that of the researcher as an instrument of the study. Yin (2014) observed that a well-trained and experienced researcher is necessary to a case study due to the perpetual interaction between theoretical concepts studied and data collected. For this study, there existed prescribed accounting pronouncements, mechanisms of sound internal control, financial reporting requirements, and laws and regulations, among others, requiring measurement against that observed in the field. Ethical dilemmas concerning such things as the sharing of private information and sensitive data taken into consideration. The avoidance of biases and conducting research ethically were important attributes observed by the researcher. To be a good instrument of the study the researcher had to have a firm grasp of the issues involved.

An in-depth, face-to-face interview is an important instrument in qualitative research where valuable information gathered supplements other methods of data collection. Individuals were purposefully sampled at each nonprofit selected for research where he or she can provide information related to answering the research question. For this process, the researcher used the Interview Guide as contained in Appendix A. While there was no set sample size for the selection of interviewees, the researcher sought to conduct interviews at each site until the emerging themes, issues, topics, and stories become common among interviewees indicating an appropriate level of saturation. The researcher documented a more detailed discussion of data collection and the methods used, including the use of interviews.

Creswell (2016) found it necessary to collect multiple sources of data with the objective of providing an in-depth perspective of the issues contained within the case. Examples of good sources for collection and analysis in a good case study include interviews, observations, archival records and documents, and visual materials. Yin (2014) stated one primary advantage of the use of multiple sources of evidence within a case study research is that it promotes the development of converging lines of inquiry or triangulation. The primary instruments or tools of data collection employed for the study were interviews of key personnel, observation, and inspection of documentation.

Data Collection Technique. Each nonprofit studied was approached by the researcher as if an audit of its system of accounting for endowments was being conducted. Gathering data or evidential matter in an audit is not unlike gathering data in a case study research. The researcher asked questions designed to gain an understanding of the entity's environment, procedures, and control mechanisms. Observation in real time provides an auditor with evidence of how one carries out a process or control procedure. Finally, tests designed related to document inspection often provide evidence that the entity has what is necessary to substantiate assets, transactions, and the like. Document inspection can also indicate whether controls or other procedures are functioning as intended. For this research, data collection used to gain an understanding of how the system of accounting for endowments works within each nonprofit and whether each had properly maintained a system of documentation was the focus and involved the sources and methods as described below.

Yin (2014) described five levels of questions in performing research. Of the five, Yin stated a researcher performing a case study should focus on level one and two questions. Yin noted level one questions are the questions asked of specific interviewees. Level two questions are those asked of the particular case under study, even where the single case is part of a larger, multiple-case study (Yin).

Level one questions for purposes of this study are contained in the Interview Guide (Appendix A). The questions in the interview guide were conversational and not numbered so they could be rearranged or worked into the conversation with the interviewee naturally. Level one questions constitute the verbal line of inquiry (Yin, 2014).

Level two questions are a part of an overall mental line of inquiry (Yin, 2014). Level two questions for purposes of this study relate to the researcher's understanding of the overall process of accounting for endowments such as for asking why a system of accounting for endowments is important. Alternatively, why is it important to maintain a system of adequate supporting documentation in accounting for endowments? The literature review and understanding of the principles of accountability and stewardship assist in answering, in part, such questions. This researcher developed and posed the level one questions with level two questions in mind. The level one questions documented in the Interview Guide are designed to gather data for purposes of answering the primary research question: How do affiliated Midwestern nonprofits control endowment funds through the management of documentation to ensure they are not at risk of noncompliance with donor-imposed restrictions or applicable accounting requirements over restrictions and designations? The level one questions also address the problem studied whether nonprofits, specifically, certain affiliated Midwestern nonprofits have properly implemented a system to track and maintain documentation of their endowment funds to avoid being at risk of noncompliance with laws, regulations, reporting requirements, and sound control practices.

The researcher scheduled and conducted recorded interviews of key personnel, with their consent to participate obtained. The questions used were contained in the interview guide and helped elicit information regarding the person's understanding of their organization's system of accounting for endowments, prescribed policies, and internal control. The researcher conducted interviews to gain an understanding of the controls and procedures in place and to what extent the entity had implemented such controls and procedures. These initial interviews were open-ended utilizing the questions contained in Appendix A. The researcher posed other questions as a matter of follow-up to clarify the researchers understanding of various facts and circumstances related to addressing the problem and answering the research question.

Direct observations of an informal nature were made of personnel and the environment to help gain an understanding of the subject of the study while on site. Generally, the researcher made observations while collecting other evidence, such as during interviews and while inspecting documents. Direct observations witness one carrying out some procedure or task that is relevant to the overall thing studied. Direct observation provided information in real-time and context.

Yin (2014) noted documents play an explicit role in any data collection related to a case study. The researcher obtained permission and time allotted to examining the files at the nonprofits studied pertaining to endowments and the system of accounting for endowments. The examination of source documents such as wills, trust provisions, and the like was necessary to demonstrate the organization had maintained source documentation where possible. The examination of documents such as board minutes and resolutions to prove the existence of approvals by boards and the effectiveness of such controls was necessary in determining how the nonprofit manages its endowments, and whether they maintained adequate documentation related to board designations and the like. Other documents, such as spreadsheets to determine the existence of controls and a system of endowment management were necessary to this study to demonstrate whether a system for documenting endowment funds and their provisions was in place, and the extent to which the system for maintaining such records seemed to be effective. Finally, recent audit reports and Form 990 filings could provide information relating to the quality of the final product in financial reporting and any related deficiencies.

Data Organization Technique. Organizing and documenting data is important to any research study. The documentation for the study generally consisted of two types: evidentiary and the report of the researcher. The following describes the compilation and organization of evidentiary data used in preparing the research report.

The researcher utilized electronic media for recording and Microsoft Word and Excel to accumulate and organize data gathered during the course of the study at each site. The researcher organized the information obtained from interviews, casual or informal observation in Word as collected on internal control, and the nonprofit's environment. The researcher redacted sensitive or personal information from the Word and Excel documents to maintain confidentiality and proper ethical treatment of data.

Where necessary, the researcher obtained or created an Excel spreadsheet to document source data for the endowments involved in the study at each site. The researcher documented endowments as to their respective classification and whether the documentation of each examined seemed adequate. Redacted information included any specifically identifying persons or entities.

The Word documents and Excel spreadsheets were stored securely on the hard drive of a laptop computer owned by the researcher. The researcher maintained and secured backups of the data on portable drives. The backups were necessary to prevent data loss due to file corruption or hardware malfunction.

Data Analysis Technique

The results of the interviews, casual observations, and evidence gathered from the examination of documents helped answer the research question. The objective of this multiple-case study research was to gain an empirical understanding of whether the nonprofits studied had maintained an adequate system of documentation and control, to determine whether those studied were at risk of noncompliance with donor-imposed restrictions, board designations, laws and regulations, and applicable accounting pronouncements. The present research was an accounting multiple-case study, involving the study and documentation of actual practices, including the details of significant activities studied related to accounting for endowments as described by Cooper and Morgan (2008). The study sought to provide generalizable findings or analytic generalizations as described by Yin (2014) as those going beyond the setting for the specific cases studied.

Yin (2014) stated the initial stage of data analysis is to select an analytic strategy. One strategy defined by Yin is that of developing a case description where it is possible the original and explicit purpose for conducting the case study was a descriptive one. The concept for the descriptive framework would have come from the initial review of the literature where gaps would have been identified leading to a problem and need for a study. This multiple-case study research was designed to describe how certain affiliated Midwestern nonprofits documented endowments and whether these institutions were at risk of noncompliance with prescribed accounting pronouncements, mechanisms of sound internal control, financial reporting requirements, and laws and regulations, among others things.

In this research, gathered data from each nonprofit site related to how the entity documented its endowments and to what extent, if any, the researcher believed from such data the nonprofit was at risk of noncompliance. The analysis of data gathered led to the development of a description of the conditions at one nonprofit. Then, through an iterative process, the researcher conducted each additional, subsequent case study and developed a description. The researcher documented emergent themes to describe the conditions at each site for use in comparison with prescribed procedures, such as accounting pronouncements, mechanisms of sound internal control, financial reporting requirements, and laws and regulations.

A cross-case synthesis technique provided more robust results than would be possible with a single-case study. The cross-case synthesis explored to what extent the cases studied had replicated or contrasted with each other. The procedures of data analysis by case description and cross-case synthesis attended to all of the relevant evidence, addressed plausible interpretations of findings, and addressed the most significant aspects of the research, to answer the research question as to the degree to which nonprofits were at risk of noncompliance.

Reliability and Validity

Reliability and validity are two evaluation measures key to qualitative and quantitative research. However, reliability and validity are not identical as used in each research method. Noble and Smith (2015) noted of reliability and validity in qualitative research that they can be less precise than in quantitative studies. Reliability pertains in general to the degree of consistency and repeatability of research procedures as used in a particular study. Validity helps ensure the research is more than just a personal interpretation of the author. Golafshani (2003) stated of reliability and validity that they are two factors, which any qualitative researcher should be concerned about while designing a study, analyzing its results, and judging the overall quality of the study.

This qualitative multiple case study used appropriate validation and reliability constructs. Creswell and Poth (2018) described certain validation strategies and described those applicable to the researcher’s lens perspective. Triangulation is a technique that facilitates validation of data through cross verification from two or more sources. Creswell and Poth noted the validation of evidence through triangulation, or cross verification through a combination of a number of means in the study of a subject phenomenon. For this research, converging lines of inquiry emerged from themes stemming from face-to-face interviews as analyzed in conjunction with that obtained from documents inspected, and casual observations made by the researcher resulting in the triangulation of data.

Fusch and Ness (2015) observed the failure to reach a point of saturation of data in a research study has a direct impact on its content validity. Fusch and Ness went on to say saturation has a direct impact on one's ability to replicate a study. In the study, data were collected with the intent of obtaining not only a sufficient volume of data (thick data), but quality data (rich data). Documents were reviewed by the researcher and observations made and documented in such a way to enable the study to be replicated.

The researcher conducted interviews with saturation in mind. For saturation to occur from interviews it was necessary to interview a sufficient number to allow themes to emerge from various interviewees in recurring fashion (thick data). It was necessary to interview individuals from a variety of sources, perspectives, or roles within the endowment documentation process (rich data). Additionally, the researcher considered the "personal lens of the researcher" concept where it was important to focus on the perspective of those interviewed. The researcher wanted to ensure the views of the study reflected the views of the participants and not those of the researcher. The open ended nature of the questions in the Interview Guide (Appendix A) were designed to bring out the perspectives of those interviewed and not inject bias by being leading.

Reliability. The objective of reliability in a study is to minimize the degree of bias and level of errors within a given study. Yin (2014) stated the primary purpose of reliability is to ensure that if a subsequent researcher were to follow the same procedures and conduct the same case study over again, he or she would come to the same findings and conclusions. The Interview Guide (Appendix A) enabled the replication of the interview portion of the study and enhanced reliability. The interview guide allowed replication of the same procedures during other interviews at the same site and at other sites included in the multiple case study. The Interview Guide helps facilitate consistency in the interview process.

Yin (2014) noted an important prerequisite to ensure a particular case study is replicable is through the proper documentation of the procedures followed. Yin found the best manner in which to approach the reliability problem in a case study is to make steps operational where possible and conduct the study as if someone was looking over the researcher's shoulder; or, "conduct the research so that an auditor could in principle repeat the procedures and hopefully arrive at the same results" (p. 49).

The researcher conducted the study at each nonprofit site from an audit perspective. To do so required the researcher to maintain the chain of evidence. The chain of evidence for purposes of this study involved documenting the "derivation of any evidence from initial research question to ultimate case study conclusions" (Yin, 2014) and thus allowed one to trace the steps of the study in either direction, forwards and backwards. Yin stated this is made possible in a case study by being able to clearly move from one part of the case study process to another by utilizing the cross-referencing of procedures and resulting evidence.

Validity. Creswell and Poth (2018) observed many perspectives exist where it concerns the importance of validation in a qualitative research study, its definition, the terms used, and procedures for establishing it. Validity can refer to both face and content. Face validity refers to the degree to which an assessment or test subjectively appears to measure a variable or construct that it is designed to measure. Face validity is a test or an assessment that appears to do what it claims. Content validity refers to the degree of accuracy with which a measurement or assessment accurately ties in with the various aspects of the specific construct in question.

Yin (2014) noted four tests of validity relevant to qualitative studies in general and therefore to the case study research design as a subset. The four widely used tests documented by Yin are construct validity, internal validity, external validity, and reliability.

Construct validity. Construct validity relates to the degree to which a particular test measures what it claims to. Yin (2014) stated there are certain tactics used within a case study research under the guise of construct validity. One is to use multiple sources of evidence and another is to establish a chain of evidence, both integrated into the data collection phase. Another tactic related to construct validity is to have other researchers review the draft case study report at the composition phase. Construct validity is also known as confirmability.

Construct validity within the study was addressed in part through the following. A collection of multiple sources of evidence from three separate nonprofits through inquiry of personnel, casual observation, and inspection of documents or archival data. The researcher gathered evidence in such a way as to develop convergent lines of inquiry. The evidence collected and documented established a chain of evidence. Finally, a site informant, or one of the key personnel who participated in the study reviewed data from each individual case study.

Internal validity. Internal validity refers to experiment quality (Yin, 2014). In a qualitative study, internal validity describes credibility, and relates to the believability and trustworthiness of the findings. Internal validity therefore depends more on the richness of the data gathered than on the quantity of data. Creswell and Poth (2018) stated evidence corroboration comes through triangulation, or cross verification through a combination of a number of methods as employed within the study of a subject. Triangulation involves crosschecking information from multiple perspectives.

In this study, explanation building or an analysis of case study data by using the data gathered to develop a good, successful, satisfactory, adequate, or acceptable explanation provided an answer to the research question posed. The researcher developed the explanation in narrative form. The researcher developed an initial explanatory proposition or statement using prescribed accounting practices in accounting for endowments and sound control procedures. The researcher compared the findings from the first case study to this initial statement to determine whether the entity examined was at risk of noncompliance in accounting for its endowments. The researcher repeated or replicated the process by conducting two additional case studies and comparing those results to the initial proposition. The researcher used the findings to build a compelling explanation.

External validity. External validity equates with transferability in qualitative research, which refers to the degree the findings of a particular research study transfer to other contexts by readers (Yin, 2014). This means the results are generalizable as applied to other similar settings, populations, situations, and the like. The researcher thoroughly described the context of the study to assist the reader in generalizing the findings and apply them appropriately. In a multiple-case study, replication accomplishes external validity during the data collection phase.

The researcher addressed external validity in the study, first, with a “how” type research question and second by using a multiple-case study approach to bolster the generalizability of the findings. The research question posed was concerned with gaining an understanding as to how nonprofits documented endowment funds to determine whether such entities were at risk of noncompliance. The first nonprofit studied by the researcher resulted in findings. Subsequently, the study was performed iteratively at two additional nonprofits with findings being documented and analytic generalizations being developed.

Reliability. Reliability is the fourth case study test noted by Yin (2014). Reliability relates to the dependability of the findings, which in turn lends legitimacy to the research method employed. As was noted above in the section on reliability, this is important for other researchers who may want to replicate the study. Reliability and validity go hand-in-hand as noted by Golafshani (2003).

Transition and Summary

This section of the study commenced with a statement of the purpose of the research. The purpose was to explore the systems of accounting for endowments of nonprofits with the intent of documenting whether such entities were at risk of noncompliance with donor-imposed restrictions, board designations, laws and regulations, and applicable accounting pronouncements as it relates to their stewardship of a major source of funding and accountability to donors and other stakeholders. The researcher in many respects played the role of an auditor and was active in the collection of data primarily through the gaining of an understanding of the control environment and inspection of documents at three related, yet distinct Midwestern nonprofits. The researcher sought to document data gathered without biases and documented it with the tenets of reliability in mind. The researcher used various measures, such as triangulation of the evidence gathered, to validate the study.

The researcher presented the results of the study in the next section. The researcher compared the results of the study to the authoritative literature to determine consistency of application with theory. The section includes documentation of any shortcomings in practice and discuss some best practices related to management control and a system of maintaining supporting documentation pertaining to endowment funds. The section concludes with the limitations of the study and areas for future research.

Section 3: Applications to Professional Practice and Implications for Change

Nonprofit organizations are required to classify properly restricted funds in their financial reports. Nonprofits frequently encounter issues in developing and maintaining a system of tracking the necessary documentation to ensure the proper classification of endowment funds in their accounting system and thus properly reported in the financial statements. The lack of a proper system of documentation puts nonprofits at risk of improperly using donated resources and not accurately classifying funds in their financial statements and related disclosures.

This research documented the findings of a qualitative multiple case study of how three affiliated Midwestern nonprofits control and account for endowments. The findings, along with a discussion of some best practices, add to the body of literature on managing and controlling endowment funds. The following parts comprise Section 3: an overview of the study, a presentation of the findings, applications to professional practice, recommendations for action, recommendations for further study, reflections of the author, and the summary and conclusions.

Overview of the Study

This applied doctoral qualitative research was conducted to answer the research question as posed in section one by exploring the way three affiliated Midwestern nonprofits document and control endowments. The specific problem researched related to the manner in which the nonprofits studied controlled endowments and whether they had maintained adequate system of documentation to minimize the risk of noncompliance. Noncompliance is defined as not adhering to donor-imposed restrictions, board designations, laws and regulations, and applicable accounting pronouncements, and thus be further at risk of improper stewardship of a major source of funding and accountability to donors and other stakeholders.

The study and participants. A qualitative case study was determined to be the best method for use in answering the research question posed. Furthermore, it was necessary to perform a multiple-case study by identifying three nonprofits of similar size for participation. This researcher determined a replication of case studies at two additional sites would supplement the findings from the first case study site, fill in gaps left by just performing one case study, and in total provide a stronger overall case study and make the findings more compelling.

The researcher used an intermediary to gain access to the three nonprofits that participated in the study. The intermediary identified the three nonprofits and provided contact information for each executive director. The criteria used to select participants for interview at each nonprofit focused on those persons involved in the governance, accounting, and financial reporting of endowments within the entities selected.

The executive director of each nonprofit was contacted via email and agreed to participate in the study. The required approval letter was obtained from the executive director on the nonprofit's letterhead. The executive director singed the proper consent form and agreed to an interview. The executive director granted access to endowment documentation and gave permission to contact and interview other personnel.

The executive director of each nonprofit provided the name of a board member for contact who would be familiar with the endowments of the organization. The executive director or the researcher contacted the board member. If the board member agreed to participate in the study an interview was conducted in person where possible or via telephone if necessary. Board members are volunteers who may not have been available on the day of the site visit. The researcher obtained all required permissions from board members through the signing of the appropriate consent form.

The other person at each site needed to gain an understanding of the control environment and operations with respect to endowment accounting was the person serving as the organization's accountant. This person agreed to participate in the study, provided information on the present system, and described their role in accounting for endowments via an interview. The researcher obtained a signed consent form was from each individual accountant.

Collecting evidence. Case study evidence can and should come from multiple sources as noted by Yin (2014). The methods of gathering evidence for this multiple-case study at each site were from sources identified by Yin and included interviews, documentation, and casual observation of participants. The reasons for and description of the use of each of these methods follows.

***Interviews*.** Interviews are one of the most important sources of evidence in a case study research (Yin, 2014). The interviews were guided conversations rather than structured queries (Yin). The researcher recorded each interview, transcribed the interview into a Word document, and read and noted through coding key phrases, ideas, or concepts as they occurred to the researcher. The researcher subsequently classified the codes into themes or perceptions for assessment. The researcher analyzed and interpreted the data from the emerging themes or perceptions. The themes or perceptions were generally selective to allow the researcher to write a story line or connect categories as described by Creswell and Poth (2018). The researcher interviewed the executive director, person serving as accountant, and board member from each site using the interview questions contained in the Interview Guide, Appendix A.

The questions as asked from the Interview Guide provided evidence to answer the overall research question: How do affiliated Midwestern nonprofits control endowment funds through the management of documentation to ensure they are not at risk of noncompliance with donor-imposed restrictions or applicable accounting requirements over restrictions and designations? In answering the research question, it was necessary to gather information related to the background and qualifications of those involved in the management of endowments, the present system used by the organization, and the strengths and deficiencies related to the organization's ability to account for its endowments. Themes or perceptions emerging from the interviews used to inform the study are discussed within the section of each respective nonprofit.

To gain an understanding of the individuals, his or her educational background, role within the organization, and duties or responsibilities in managing endowments the researcher used a subset of questions as contained within the interview guide. Johnson (2009) observed vulnerability exists where there is a lack of training, resources, experience and support. Greenlee et al. (2007), Dent (2014), and Schwarzkopf et al. (2008), and others noted a commitment to competence as being important to the overall control environment. The objective of asking the questions noted was for discerning whether effective personnel, capable of managing a system of endowment documentation was in place. The subset of questions related to gaining such an understanding is under the Interview Guide heading Background, Education, and Training.

It was necessary to pose questions related to what extent the organization had maintained a system for managing endowment documentation and whether such documents existed. The Interview Guide contains a subset of questions related to gaining an understanding of the policies and procedures in place, the accounting system in use, and the overall control system ,if any, used to manage endowment funds. Maguire (2014), Rubino and Vitolla (2014), and Nehina and Brundey (2012) discussed the importance of control activities and related policies and procedures, among others. The subset of questions related to gaining such an understanding is in the Interview Guide as Policies, Procedures, and Controls.

The third subsection noted in the questions contained in the Interview Guide relate to the perceived strengths and deficiencies related to the organization's ability to account for its endowments as described by the interview participants and is entitled: Perceptions of the Present System. The researcher questioned the participants as to what works well and what improvements they thought necessary to the present system. A review of controls as noted by Nezhina and Brudney (2012) and risk assessment as opined by Schwarzkopf et al. (2008) are important to continuous improvement. Those researcher inquired of those interviewed what they thought were the most challenging aspects of accounting for endowments. Finally, the researcher gave participants an opportunity to provide additional information to their responses. The responses to the interviews are discussed in relation to each subset of questions within the section on each nonprofit below.

Documentation**.** According to Yin (2014) "documentary evidence is likely to be relevant to every case study topic" (p. 105). Documentary information was relevant to the case study conducted at each site. The executive director at each site granted permission to review endowment related documents and files. Endowment related documents, files, and spreadsheets were examined for the purpose of learning to what extent the nonprofit entity had documented its endowments and to what extent the nonprofit had a sound system for managing its endowments. Additionally, the researcher requested and inspected the most recent audit report and Form 990 of each entity. The researcher selected documents haphazardly for review at each nonprofit site. The objective was to review enough documentation to assess whether one could easily determine the extent to which the organization had a system that allowed an outsider or new employee to determine the proper degree of accountability over endowment funds.

Observation. A case study should take place in a real world setting which creates an opportunity for direct observations (Yin, 2014). Environmental conditions and participant reactions related to the study were available for observation by the researcher while conducting interviews and examining documents on-site. "Such observations serve as yet another source of evidence" (p. 113) per Yin. In this study, observations were of a casual nature while gathering other evidence as noted.

Summary. The researcher gathered data from multiple individuals and sources at each site, and from multiple sites, to obtain a sufficient level of saturation and develop converging lines of inquiry. Convergent evidence, or triangulation through multiple sources of data helped strengthen the construct validity or accuracy of the findings as presented below. This researcher believed the degree of saturation obtained from the study was sufficient to support the findings. While there were no known prior comparative studies, the researcher buttressed the findings as presented with pertinent literature to provide additional support.

The findings from the study indicate nonprofit A has a system sufficient to succinctly, accurately manage its endowments and related documents in such a way to minimize the risk of being in noncompliance. The system employed by nonprofit A makes easy an assessment as to what extent of endowment documentation and classification. Findings related to the systems employed by nonprofits B and C indicate deficiencies or weaknesses in their systems, which could place them at risk of being in noncompliance.

Presentation of the Findings

This section presents the findings of the multiple case study research. The researcher chose the three related Midwestern nonprofits to participate in a study designed to answer the primary research question: How do affiliated Midwestern nonprofits control endowment funds through the management of documentation to ensure they are not at risk of noncompliance with donor-imposed restrictions or applicable accounting requirements over restrictions and designations? The researcher discussed in the section dedicated to each nonprofit, the interviews as developed from themes or perceptions from responses to the questions posed from Appendix A as related to the overall research question. Second, the researcher used the findings from the study to describe the basic system of accounting for and managing endowments at each individual nonprofit as could be determined from the interviews conducted and documentation examined. Next, the section concludes with a synthesis of the findings for the purpose of comparing and contrasting the systems of documenting and accounting for endowments at each entity, and where positive attributes and deficiencies might exist.

Nonprofit A. Nonprofit A reported net assets of approximately $4.737 million in total endowment funds in one fund reported in the Statement of Financial Position in the audit report of nonprofit dated December 31, 2016. Of this amount, nonprofit A reported permanently restricted net of $2.543 million, temporarily restricted net assets were reported at $936,000, and unrestricted net assets were reported at $1.258 million. A description of these net asset classifications follows.

The endowment fund reported unrestricted, temporarily restricted, and permanently restricted net assets, with each classification described in the significant accounting policies described within the financial statement notes. Board discretion determines the use of unrestricted net assets. Temporarily restricted net assets represent resources containing donor-imposed restrictions as to time or purpose and unappropriated investment returns on donor-restricted endowment assets. Permanently restricted net assets are those resources that are donor-restricted which require the perpetual maintenance of principal, but allow for expenditure of the income earned. Accounting principles generally accepted in the United States or GAAP governs the accounting for net assets.

The net assets of Nonprofit A were approximately $5.277 million per the endowment grid dated December 31, 2017. Of this amount, approximately $558,000 represents beneficial interests in three trusts accounted for and reported by the nonprofit in this fund. Nonprofit A has no control over the management of the funds held in trust for the nonprofit's benefit with all three being listed as donor restricted as to principal in the nonprofit's financial statements.

Approximately $4.69 million of the net assets representing 39 separate entries or endowment funds managed by the nonprofit according to the endowment spreadsheet or grid of the nonprofit. Of these endowments, 22 are donor restricted as to principal and 17 designated as quasi-endowments or funds acting as endowments by the board. The nonprofit reports endowments considered donor restricted as such in the financial statements based upon GAAP. The nonprofit reports endowments designated by the board as unrestricted net assets. According to the nonprofit's grid, six of the permanently restricted endowments are restricted as to both principal and earnings. Of the board designated or quasi-endowments three are listed as also being designated as to earnings.

The interviews. Interviews were conducted on-site of the executive director, accountant, and board president of nonprofit A. The researcher recorded, transcribed, and coded interviews in Word documents to develop themes or perceptions. The analysis presented below is of themes or perceptions emerging from the interviews in relation to gaining an understanding of the present system in place at nonprofit A in answering the research question.

The following is a synthesis of themes or perceptions emerging from the responses to the series of questions from the Background, Education, and Training section from Appendix A.

Background, education and training is important within the control environment. Based on responses given, those interviewed have backgrounds sufficient to what would be required for their respective positions within the nonprofit. The executive director does not have a strong accounting background but has worked within the nonprofit sector for a number of years. The accountant of nonprofit A is a certified public accountant. The board member interviewed and the accountant hold MBAs.

The need for additional education and training was a recurring theme and the most salient from this section noted by the researcher from the interviews conducted. Participants one and two mentioned the national nonprofit, as providing some education and training but each stated they believed this training to be inadequate. Participant three noted the specialized nature of endowment accounting and that getting classifications right can prove challenging. Participant two said, “More specific training is needed.” One obstacle noted by participant two is the infrequency of endowment donations. Frequency can present problems recalling the proper accounting procedures. Johnson (2009), Dent (2014), Lee (2016), and others opined concerning the importance of competence and the impact on the overall organization and its environment.

Themes or perceptions as developed from responses to questions posed from the Environment, Policies, Procedures, and Controls section of Appendix A follow. O’Grady et al. (2010) noted the importance of management controls and their all-encompassing nature in terms of the processes, procedures, and routines, among other things, of the organization. In terms of policies and procedures, participants one and three noted the importance of policies promoting endowment growth as being important. Participants one, two, and three however, also emphasized the importance of getting the accounting right for purposes of stewardship and accountability as it concerns any restrictions, designations, and the like. The three participants believe nonprofit A is unique in the way it manages its endowments with its ledger and grid system and that this system helps provide both accountability and continuity in accounting for endowment gifts over time.

All three noted the importance of the role of board oversight and having specific policies in place to govern investments, growing the endowment fund, and monitoring its use. Dent (2014), Bartholomew (2015), and Liu (2010) noted the role of the board and their obligations in the effective management of the organization. Participants one and three pointed out the investment policy of the entity is slightly more aggressive than the norm with participant three stating this is appropriate to grow the endowment for the long-term. Participant three was adamant about having a windfall policy to ensure large, undesignated gifts are not squandered and stated the board policy is to use such funds to reduce long-term debt or establish a quasi-endowment by board designation.

All three participants noted the use by nonprofit A of external parties such as the investment manager and auditor in endowment fund management and accountability. Gordon (2013) noted the reliance smaller nonprofits place on external experts such as CPAs. All three respondents as being important to proper accountability and making informed decisions mentioned board expertise on the endowment committee of the board of directors. Frequent reporting on endowments at board meetings by the endowment and finance committees provides greater confidence that endowments are properly accounted for per participant three. Fishman (2014) and Ellis (2011) discussed the role of the board, and its policies and procedures, as being at the center of good governance.

The register and grid system employed by nonprofit A was the recurring, salient piece of information coming from responses to various questions asked from within this section of the interview guide. Participant three stated, “without the written record, endowment register, and system of documentation, when there is turnover in the executive director or board, which is going to happen, then the purpose and restrictions can be forgotten about and there is the risk of using funds for an unintended purpose or not properly reporting them.” Participant three went on to observe the importance of recording the gift properly initially; this would include properly documenting the gift in the endowment register and on the endowment grid. Participant two noted the best practices in accounting for endowments as developed by a member of the endowment committee as being the primary source of the endowment register and grid system. Effective controls reduce the risk of asset loss or misclassification or misappropriation. Turpen (2015) noted the proactive nature of a sound control system and its importance to minimizing risks and achieving organizational objectives. The register and grid system is one such proactive measure.

The subset of questions entitled Perceptions of the Present System produced the following. The participants at nonprofit A were unanimous in their opinions that nonprofit A has an effective system for documenting, recording, and managing endowment funds. Participants one and three stated recording gifts properly and managing them with donor intent in mind is challenging to the process of accounting for endowments. Participant one noted the importance of the endowment grid to managing endowments and “identifying what income will be available for budgetary purposes.” Participant one stated the system employed by nonprofit A (the register and grid) “is significantly better than the system we had in the last nonprofit I came from.”

The interviews helped develop an understanding of the system for managing endowments and related documentation at nonprofit A. The data gleaned from the interviews was used, along with documents inspected and casual observations made, to develop the portrait nonprofit A as noted below. The information from the interviews and that described next helped answer the research question as it pertains to nonprofit A in the summary section below.

Overall environment. Nonprofit A is a small organization with a governing board, one executive director, and one accountant. Others employed by the organization are on a full- or part-time basis but have no role in the management of endowment funds. A board governs the nonprofit with separate committees on finance, endowments, and audit.

Education and training. Nonprofit A has a strong representation of financial acumen on the governing board. The board treasurer holds an MBA and works as an accountant in the private sector. A prior board member who now serves strictly on the endowment committee holds a PhD, has an accounting background, and has helped nonprofit A set up the entity's present system of accounting for endowments; an objective of this person has been to develop an endowment accounting manual which was adopted by the board for use in the nonprofit. Johnson (2009) noted the importance of education and training.

Policies and procedures. Nonprofit A has several policies and procedures in place that impact the management of endowment funds. Rubino and Vitolla (2014) and Lee (2016) opined concerning the importance of policies to the overall tone and operation of the entity. Salvioni (2005) emphasized the importance of pertinent governance and control systems and that they help the organization achieve its objectives. The primary policies, procedures, or forms adopted by the board of nonprofit A related to endowments are an investment policy, a spending policy, a windfall policy, a donor or endowment agreement, and an Endowment Accounting Manual. The nonprofit has also adopted unliquidated bequests policies and procedures. The other policies include those for handling cash and other control procedures.

One objective of the investment policy is to generate a reasonable amount of income using the total return concept and allows for a 75/25% mix of equities to debt, which is slightly more aggressive than the norm. The organization can invest endowment funds in alternative securities, but only through a mutual fund or exchange traded fund. The investment policy describes certain benchmarks for measuring the performance of the external investment manager. The spending policy, as included within the investment policy, calls for a three-year rolling average payout based on twelve quarters with the subsequent year's payout being based on the 9/30 calculation. This allows the nonprofit to know the funding available to the organization as those in charge prepare the next year's budget.

The board has adopted a windfall policy. A windfall is an amount equaling a one-time gift of $5,000 or more. The board views such gifts as an opportunity and wants to maximize them for a long-term purpose where possible. The objective of a windfall policy is to first retire any outstanding debt and consider capital needs or endowment funding with any residual amount. If amounts require designation as funds functioning as an endowment or quasi-endowment, the board adopts a resolution creating a quasi-endowment with unrestricted earnings. Management considers receipt of any gifts of less than $5,000 without stipulation on use as to be operating fund revenue.

The donor endowment agreement allows for the documentation of any specific gifts to the endowment fund. The agreement denotes the donor or donors, states conditions for gift acceptance, provides for any restrictions as to purpose, outlines the manner of distribution as per the spending policy, and describes how the funds are to be invested and accounted for. Attachment A to the agreement lists the gift by type of property. The agreement then becomes a part of the endowment register, which makes identification for classification purposes possible and provides a record in perpetuity.

The Endowment Accounting Manual (manual) as adopted by the board prescribes certain practices related to accounting for endowments and describes various forms for use in documenting and tracking endowments. The board adopted the first version of the manual in 2011. The manual provides a model or best practice. The manual advocates a system that allows compliance with GAAP, UMIPFA, and other promulgated standards.

The unliquidated bequests policies and procedures are designed to document information where the nonprofit has been identified as a future beneficiary of an estate settlement or where one has named the nonprofit as a beneficiary of an estate, which has yet to be executed. The nonprofit intends to maintain a register of such unliquidated interests. When a change in status of an unliquidated bequest occurs, the board is to be notified to take the appropriate action. Such a register primarily documents the nonprofit's interest in such items, as well as, help ensure funds are properly handled at the time of distribution. By knowing in advance, the nonprofit can work with the donor or the donor's family to denote any restrictions on the use of funds and ensure the proper degree of accountability and stewardship.

Endowment documentation. Baker and Collins (2005) opined concerning the importance of maintaining the proper source documentation. Nonprofit A has carefully organized pertinent documents related to endowments under management in the organization's Endowment Register, which lists the significant provisions of each endowment. One page for each endowment has been prepared for existing endowments with the intention to create a new page for each future endowment received. Attached to each register page are any pertinent documents to substantiate the gift and any restrictions; one such document is the endowment agreement. The idea being that the endowment register provides a succinct, accurate, historical reference for endowments of the nonprofit.

The endowment register is a collection of documents. The term endowment register also happens to be the name of a one-page document, designed to summarize information about a particular endowment gift. In this sense, the one-page document denotes all pertinent information, including the type of endowment for classification purposes: true endowment with unrestricted earnings; a fund functioning as an endowment with unrestricted earnings; true endowment with donor restricted earnings; and a fund functioning as an endowment, with donor restrictions on earnings. The information contained within the endowment register page documents the classification of the funds, with a separate listing on the endowment grid.

Accounting. There are checks and balances through various processes, along with the overall system of documentation put in place to help ensure the proper accountability over funds. Rubino and Vitolla (2014) noted the importance of properly applying accounting policies consistently. A separate fund accounts for all endowments with the endowment grid serving as a subsidiary and tying back to the balance of this fund. One important theme that emerged from interviews related to the idea of the nonprofit properly documenting and recording the gift at the outset. Participant three thought proper recording initially reduces risk and increases the likelihood the endowment will continue to be properly handled in the future. The following describes some pertinent information regarding the documentation and flow of gifts or funds.

When the nonprofit receives a new endowment, an endowment register page is prepared and presented to the board; the treasurer’s report contains the register page denoting the gift with subsequent acceptance of it by the board. Should the nonprofit receive an unrestricted windfall, the board adopts the appropriate resolution to assign the gift to the organization’s endowment funds. Similarly, where unrestricted earnings exist, the board, by resolution, may designate such earnings for a specific purpose. Restrictions or designations affect assignment of the gift to the grid.

The endowment grid summarizes all endowments, including their historical gift and current market values. The grid is prepared on a quarterly basis and reconciled to the nonprofit's investments and bank balances. The grid serves as a subsidiary ledger and ties out with the balance of the endowment fund as maintained in the accounting software. The software either is not used or does not have the capability of reporting the endowments and earnings in the proper format for reporting. The totals from the grid will tie out with the annual financial statements prepared in accordance with the appropriate standards and as contained in the audit report, as well as, the Form 990. Archambeault et al. (2015) noted the recent uptick in interest in IRS Form 990 by various stakeholders.

Summary and observations. Based on the interviews conducted, documentation inspected, and casual observation, nonprofit A has a sound system in place for managing its endowment funds. One can make a quick assessment of the classification of the endowments for reporting purposes as detailed in the grid used by nonprofit A. At a glance, one can determine from the grid the income available to the nonprofit for the ensuing budget year. The Endowment Register provides a valuable source of information related to each endowment displaying some historical perspective and supporting documentation as to proper classification of principal and income. In answering the research question, nonprofit A has a system in place that minimizes the risk of being in noncompliance and allows the organization to be a good steward of its endowment resources and accountable to stakeholders.

Within its system of accounting for endowments, nonprofit A adheres to the following best practices. The board maintains an environment conducive to sound oversight and management of its endowments. The board has adopted policies related to the management of endowment funds, including policies on investments, spending or payout, and gift acceptance.

The board is aware of its oversight responsibilities and fiduciary duties. The board holds meetings regularly, monitors endowment investments, and documents the acceptance of new gifts within the board minutes. The receipt of a new gift without restrictions is subject to the windfall policy. If the board designates such a gift as a quasi-endowment, a documented endowment register page is included in the board minutes.

The endowment register and grid serve as the primary means of management control over endowment funds. The board has adopted its present system as a best practice. A page within the endowment register documents each endowment. The register page contains historical, descriptive information to ensure proper classification. The register includes pertinent endowment documents behind each applicable register page. The register lists endowments in a particular order for easy access.

The endowments grid lists endowments in the same order as in the endowment register to facilitate ease in access. The grid serves as a subsidiary ledger. The grid ties back to the endowment fund in the accounting system and forward to the financial statements. The grid succinctly lists endowments as to classification and summarizes the income available for budgetary purposes.

Education and training continues to be one area for improvement for nonprofit A. While there is at least one very knowledgeable member on the endowment committee of nonprofit A, the depth of knowledge is not as widespread as would be preferred. A recurring theme throughout the study is the need for additional education and training in endowment accounting. Those interviewed expressed this need or it became evident during the interview process due to the specialized nature and infrequent use of such knowledge.

The foregoing summarizes some of the best practices of nonprofit A. This study was designed to answer the research question at each nonprofit studied. The best practices advocated in Appendix B includes the accounting and control system in use by nonprofit A. However, the scope of the study was not such to cover all areas included in the checklist contained in Appendix B.

Nonprofit B. Nonprofit B reported net assets of approximately $1.865 million in the endowment fund, one fund reported in the Statement of Financial Position and included in the audit report of the organization dated December 31, 2017. Of this amount, approximately $519,000 represents beneficial interests in four perpetual or charitable remainder trusts accounted for and reported by the nonprofit in this fund. Nonprofit B has no control over the management of the funds held in trust for the benefit of the nonprofit with all four listed as donor restricted as to principal in the financial statements.

Approximately $1.346 million of the net assets represents nine endowment funds managed by the nonprofit according to the endowment matrix. Four of these endowments are donor restricted as to principal and the board designates the other five. The nonprofit reports endowments considered donor restricted as such in the financial statements. The nonprofit reports endowments designated by the board as unrestricted net assets. According to the matrix, three of the permanently restricted endowments are restricted as to both principal and earnings. Of the board designated or quasi-endowments three are listed as also being designated as to earnings.

The interviews. Interviews were conducted on-site of the executive director and accounting specialist of nonprofit B. The researcher subsequently interviewed the board member of nonprofit B by telephone. The researcher recorded, transcribed, and coded interviews in Word documents for developing themes or perceptions. Described below is an analysis of themes or perceptions emerging from the interviews in relation to gaining an understanding of the present system in place at nonprofit B in answering the research question.

The following is a synthesis of themes or perceptions emerging from the responses to the series of questions from the Background, Education, and Training section from Appendix A. Nezhina and Brudney (2012) described basic financial training as a best practice provision advocated by the SOX Act and Johnson (2009) noted the vulnerability of the nonprofit environment where there is a lack of training and the like. Based on responses given, those interviewed have backgrounds mostly related to what would be required for their respective positions within the nonprofit. The executive director does not have an accounting background, but has worked within the nonprofit sector for a number of years; this person admits he lacks a detailed understanding of accounting for endowments. The accounting specialist of nonprofit B has a bachelor’s degree in business. This person does not have a specific accounting background, but rather has learned on the job. The board member interviewed has a legal background, but no specific training in accounting.

The need for additional education and training was also a recurring theme at nonprofit B and was also the most salient from this section noted by the researcher from the interviews conducted. Participants one and two mentioned the national nonprofit, as providing some education and training, but each believed more would be beneficial. Participant one opined regarding, "the lack of understanding of complex requirements." Participant two noted, "There is a lack of understanding as to the nature of accounting for endowments."

Themes or perceptions developed from responses to questions posed from the Environment, Policies, Procedures, and Controls section of Appendix A follow. The overall environment has a bearing on the policies and procedures adopted as observed by Lee (2016). Maguire (2014) noted the importance of adoption of sound policies and procedures to the carrying out of management's directives. In terms of policies and procedures, participants one, two, and three noted the importance of having policies in place to promote endowment growth as being important. Participant one noted the need for "solicitation materials to include a purpose so the donor understands the use of funds and the nonprofit knows the funds are restricted to that purpose;" yet no such agreement exists within nonprofit B. Participants one, two, and three did emphasize getting the accounting right for purposes of stewardship and accountability.

The three participants acknowledged the system in use at nonprofit B has some deficiencies. Participant three did believe nonprofit B had all of the documents necessary to support its endowments. Participant one stated of endowments designated by the board, however, "the only place I can go to is to the board minutes and fish around as to when the designation was made and try to find it." Participant one stated, "There is a lack of understanding regarding the nature of the funds donated in terms of restrictions and the like due to staff turnover."

The fiduciary duties and oversight responsibilities of the governing board are critical to ensuring the appropriate use of organizational assets as noted by Liu (2010). All three noted the role of board oversight and having specific policies in place to govern investments, spending, and monitoring the use of funds. Participant one described the investment and spending policies of the entity and the role the finance committee of the board and the board plays in oversight and review of performance. Participants one, two, and three described the interactions of the board with the investment manager in reviewing the activity of the endowment on at least an annual basis and how the spreadsheet produced by the investment manager helps inform the executive director, accounting specialist, and board as to its accounting and use of funds.

Baker and Collins (2005) opined concerning the relevance of accounting information and reporting systems in the detection of poor financial management including financial incompetence, acts of fraud, and noncompliance with donor instruction. In describing the system in place, responses of participant two revealed the system consists of separate pieces. Participant two stated the endowment funds are accounted for on a spreadsheet provided by the external investment manager. Participants one and two revealed the nonprofit is dependent upon this investment manager to at least some degree to produce the spreadsheet for classification purposes. Participant two went on to describe the present system where each trust is accounted for individually. Participant three stated those managing or providing oversight of endowments are mostly concerned with what is happening with the endowments as accounted for on the spreadsheet maintained by the investment advisor, as the nonprofit does not control the trust funds and is only concerned with what income it will receive on an annual basis.

The salient information gathered from these interview questions as posed to those participating within nonprofit B is the bifurcated or split nature of the system employed. In addition, the lack of pertinent documents being accounted for in one place was noted by participant one as possibly being a problem if a need would arise to determine restrictions or designations. Participant three “thought” the organization had maintained all pertinent documents. The information as gleaned from this section of the interviews provided valuable information in answering the research question as it relates to nonprofit B.

The subset of questions entitled Perceptions of the Present System produced useful information from participants one and two in informing the study. Participants one and two repeated the lack of education and training in accounting for endowments. Participant one stated the challenge of "distinguishing between principal, lifetime earnings, etc." as being a problem. In addition, participant one believed there to be "a need to clearly distinguish between what can and cannot be spent." Participant two observed the need for "a system to track endowments and earnings by type to ensure proper use." Participant two went on to say a system linking all items together by types of income and the like would be beneficial. Participant two went on to say the "understanding of prior gifts is difficult."

The interviews helped develop an understanding of the system for managing endowments and related documentation at nonprofit B. The data gleaned from the interviews was used, along with documents inspected and casual observations made, to inform the researcher in developing the picture of nonprofit B as described below. The information from the interviews, inspection, and observation as discussed next helped answer the research question as it pertains to nonprofit B in the summary section on the entity below.

Overall environment. Hofmann and McSwain (2013), Owen 2004, and Janvirin (2012), among others, discussed the importance of the overall environment to a nonprofit entity's accountability. Nonprofit B is a small organization with a governing board, one executive director, and one accounting specialist. Others employed by the organization are on a full- or part-time basis but have no significant role in the management of endowment funds. The researcher interviewed the executive director, accounting specialist, and one board member of each nonprofit. Each seemed to be quite conscientious regarding their role in the accountability for endowment funds.

Two to three board members have a general understanding of basic endowment accounting, including the board treasurer. The board treasurer will present financial information to the overall board on a monthly basis. Those with specific knowledge of endowments monitor the endowment funds, their investment, and payouts.

The organization seeks to build endowments over the long-term to promote financial stability and sustainability. From time to time, the nonprofit receives a gift or memorial. The nonprofit intends gifts be designated as quasi-endowments where such gifts are large enough.

The nonprofit has not recently undertaken a major campaign to boost donor contribution of endowment funds. There are no general donor agreements related to endowment giving which would document the gift, any donor imposed restrictions, and information from the investment and spending policies of the nonprofit regarding handling of a donor's investment.

Education and training. Johnson (2009) noted the important role played by education and training, Nezhina, and Brudney (2012) opined concerning education and training as best practices pertaining to provisions of the SOX Act. The executive director and accounting specialist both hold bachelor's degrees. Neither individual has received specific accounting education formally. The primary means of training of each individual in accounting, and endowment accounting more specifically, includes the use of professional development courses offered by the national office of the nonprofit, and information disseminated by the independent auditor, investment advisor, and knowledgeable board members. The national organization provides an annual publication summarizing significant accounting policies and changes (an audit guide) to help inform those managing the nonprofit and the entity's finances.

Policies and procedures. Ahrens (2018) noted the importance of management control systems in contributing to the organization's overall functioning. O'Grady et al. (2010) opined concerning management control. O'Grady et al. found it encompasses the policies and procedures of the organization, among other things. Nonprofit B has several policies and procedures in place that impact the management of endowment funds. The investment policy dictates the acceptable investment of endowment funds. The general investment provision calls for a mix of 60% equity and 40% fixed. The investment policy requires liquidation and reinvestment of any donated assets not meeting the investment criteria of the policy. The nonprofit pools all endowment funds in one account, which facilitates efficiency in investing. An external investment manager professionally manages the one account. Standard benchmarks measure the performance of the investment manager. A meeting with the investment manager and the board of finance occurs at least once per year. The board last revised the investment policy in 2016.

The spending policy dictates the manner in which distributions occur from the endowment fund. The intention of the nonprofit would be to distribute earnings of five percent based upon a five year rolling average. The board monitors payouts in such a way as to ensure the preservation of permanently restricted funds.

Nonprofit B has a manual detailing several stewardship policies affecting the handling of funds received, fundraising, accounts payable, disbursement of funds, and inventory control, among others. Some of these policies will affect the handling of endowment funds. One such policy would include the management of fundraising records.

Endowment documentation. Baker and Collins (2015) noted the importance of properly maintaining source documentation. Nonprofit B has a number of documents related to endowments maintained in individual file folders or in two large three-ring binders. A separate file folder holds information related to each trust held for the benefit of the nonprofit. The endowments of the nonprofit are accounted for on one spreadsheet produced by the investment advisor. An overall spreadsheet summarizing the activity of the endowment, which would include the external beneficial trusts, or that ties back to the totals reported in the financial statements does not exist.

The nonprofit has attempted to compile certain historic documents related to endowments under the management of the organization. Two three-ring binders hold these documents. The binders contain excerpts of donor and trust agreements, a summary of significant data on trusts and accounts functioning as trusts. The binders contain data pertaining to the endowment trust fund, which is all-inclusive of the endowments actually held by the nonprofit and pooled for investment. There exists a chronology of board minutes documenting pertinent actions taken by the board related to endowments held by the entity, including designating certain funds as quasi-endowments. The binders also contain pages of prior audit reports and other miscellaneous documents for substantiating endowment funds.

***Accounting*.** Baker and Collins (2005) opined concerning the relevance of accounting information and reporting systems in the detection of poor financial management including financial incompetence, acts of fraud, and noncompliance with donor instruction. Rossouw (2006) described the use of fund accounting as an important method and management control in accounting for donor-imposed restrictions. There are some checks and balances in place to help ensure proper accountability of endowment funds. A separate fund accounts for all endowments. The finance committee and executive board of the nonprofit review financial reports as prepared on a monthly, quarterly, or other interval depending on need.

The accounting specialist to record income and changes in the endowment funds uses the spreadsheet produced by the investment advisor. The spreadsheet details restricted and unrestricted funds. The nonprofit balances endowment funds quarterly.

There are also Excel documents for externally held trust funds detailing required entries related to each as compiled from the trust statements, which guide the accounting specialist in recording the activity of each. One sheet summarizing all activity does not exist; what one might consider the subsidiary activity of each endowment or trust, the present system underlying the financial software is somewhat bifurcated.

The endowment fund within the accounting system does account for all activity of the endowments and external trusts. The income of the external trusts is unrestricted as to use and therefore recorded in the operating fund of the nonprofit upon receipt. The accountant produces financial statement information from the financial software, including the endowment fund. However, the information produced for the endowment fund must be further broken out for audit purposes based on restrictions and designations.

Summary and observations. There are two primary areas of concern related to nonprofit B based on the interviews conducted, documentation inspected, and casual observations made. First, there does seem to be a need for additional training and education pertaining to endowment funds. The executive director and accounting specialist both expressed the need for additional training in understanding and accounting for endowments when interviewed.

Second, the present system does not provide a user-friendly interface related to the management of and accounting for endowment funds. The system could be better at documenting and accounting for endowments in such a way to provide an accurate, historical reference. A succinct system designed to pull all relevant data together in one place would provide continuity and help ensure accountability for endowments and their earnings in the face of staffing changes over time.

Nonprofit B would spend considerably more time proving the classification of their endowment funds due to system bifurcation and the maintenance of documentation in a number of locations, not linked, and in no certain order. Additionally, the files presented contain numerous documents, but there is no system for organizing the essential, pertinent documents related to the specific endowments examined to substantiate classification in the financial statements or proper use. Nonprofit B is vulnerable should they encounter a turnover in staff where the present system is not user-friendly and easy to follow

In answering the research question, the system employed by nonprofit B does not minimize all risk that it will be in compliance. The individuals engaged at nonprofit B understand how the system works presently. There is no systematic organization of pertinent documents to serve as a historical record to promote access and efficiency in determining classification and use. There is a risk that with staff turnover, the effects of time, and the like, that the organization could lose pertinent information regarding classification of its endowments, this puts the entity at risk of misclassification, a lack of accountability, and thus poor stewardship.

Within its system of accounting for endowments, nonprofit B adheres to the following best practices. The board maintains an environment conducive to sound oversight and management of its endowments. The board has adopted policies related to the management of endowment funds, including policies on investments, spending or payout, and several stewardship policies relating to other aspects of handling cash funds.

The board is aware of its oversight responsibilities and fiduciary duties. The board holds meetings regularly and monitors endowment investments. The board documents the acceptance of new gifts within the board minutes.

Education and training continues to be one area for improvement for nonprofit B. A recurring theme throughout the study was the need for additional education and training in endowment accounting. One participant interviewed expressed the lack of a clear understanding of the nomenclature of endowment accounting, there exists confusion regarding the terms unrestricted, restricted, and designated funds, unrestricted, and restricted earnings. Additionally, one participant seemed often to be unsure as to the nature of funds held by the entity as being unrestricted, restricted, and the like.

Nonprofit B has deficiencies as it regards noted best practices. It has no gift acceptance policy. A gift acceptance policy or donor agreement should provide for the clear designation of any donor restrictions, and provide for investment and use provisions. The board should acknowledge acceptance of the donor agreement and include it in an endowment register for tracking purposes over time.

The document management system in use does not comply with best practices as it contains noted deficiencies. One interview participant stated, he “believes” the nonprofit has all of its pertinent documents. The nonprofit maintains the documentation in no particular order. There is no register of endowment funds with a page or section dedicated to each endowment and organized to promote ease in access and efficiency. A proper document management system ensures the maintenance of all pertinent documents and is easily transferable to the next generation of users, among other things.

The system in use is bifurcated or split with endowments summarized on one spreadsheet, listed in a different order on another, with trust funds accounted for separately, yet in the same fund. A best practice would be to include all endowments and trusts in the same order as in the register and on one spreadsheet or grid. Such a system would promote ease of use in determining proper classification and would tie out with the fund overall and required reports.

The foregoing summarizes some of the best practices and deficiencies of nonprofit B. This study was designed to answer the research question at each nonprofit studied. The best practices advocated in Appendix B includes additional beneficial practices to for use by nonprofit organizations. The scope of the study was not such to cover all areas included in the checklist contained in Appendix B.

Nonprofit C. Nonprofit C reported net assets of approximately \$7.429 million in the endowment fund reported in the Statement of Financial Position and included in the audit report of the nonprofit dated December 31, 2016. Of this amount, approximately \$746,000 represents beneficial interests in funds held in four separate trusts, which accounted for and reported by the nonprofit in the endowment fund. Nonprofit C has no control over the management of the funds held in trust for the entity's benefit with all four listed as donor restricted as to principal in the financial statements.

Approximately \$6.683 million of the net asset total as reported at December 31, 2016 represents 24 endowment fund entries managed by the nonprofit according to a spreadsheet provided by the business manager who serves as the accountant. Of the total reported, \$3.553 million was permanently restricted. Temporarily restricted endowment funds total \$653,000; this amount was comprised primarily of unappropriated earnings on restricted funds. The nonprofit reported unrestricted net assets at \$2.477 million in the financial statements.

The interviews. Interviews were conducted on-site of the executive director and business manager, who serves as the accountant of nonprofit C. The researcher subsequently interviewed a board member of nonprofit C by telephone. The researcher recorded, transcribed, and coded the interviews in Word documents for developing themes or perceptions. Analysis of themes or perceptions emerging from the interviews in relation to gaining an understanding of the present system in place at nonprofit C to aid in answering the research question noted below.

The following describes themes or perceptions emerging from the responses to the series of questions from the Background, Education, and Training section from Appendix A. Baker and Collins (2005) opined concerning the relevance of management competence. Johnson (2009) opined concerning the lack of training, experience, and support as making nonprofits vulnerable. Based on responses given, those interviewed have backgrounds mostly related to what would be required for their respective positions within nonprofit C. The executive director does not have an accounting background, but has worked within the nonprofit sector since graduating from college and maintains a certified fund raising executive (CFRE) designation. The business manager holds a bachelor's degree in accounting; he has taken additional accounting-related courses to supplement his education. The board member interviewed has a bachelor's degree in business management, but no specific training in accounting. Participant three noted the need for additional education and training related to understanding and accounting for endowments at nonprofit C. Participant two noted the present training provided by the national organization is "generalized training, but nothing specific as it relates to endowments." Participant one stated there is a need for additional education among board members.

Information and themes developed from responses to questions posed from the Environment, Policies, Procedures, and Controls section of Appendix A follow. Lee (2016), Schwarzkopf et al. (2008), and Rubino and Vitolla (2014), among others, opined concerning the overall control environment, its impact on the adoption of policies and procedures, and its importance to effective operations. Nonprofit C was found to have a culture and an environment focused on building endowment fund as described by participant one. Participant two noted the strong nature of the system of accountability and stated the investment committee of the board understands the investments and meets regularly with the investment manager. Participant one also noted the strength of the investment committee, but noted a lack of expertise in endowment accounting being present among those on the board.

One item emerging from the interviews was that a merger had recently taken place, which involved the transfer of some endowment funds from the merged entity to nonprofit C. Participant one stated “we have picked up some of their endowment documents” and that the information appears to be good. Participant two noted “while we have documentation for the funds brought over from the other nonprofit, we recorded it within our main endowment fund and do not track it separately by donor.”

In describing the system in place participant, two described the use of “multiple spreadsheets.” Participant two noted the classification system within the software helps maintain those funds with permanent restrictions, temporary restrictions, and unrestricted funds. Participants one and two noted there are a number of individual gift annuities held by nonprofit C within their endowment fund. Participant two discussed the four trusts held by nonprofit C and that the board generally does not “really care that much about” them, “as long as we are getting our annual payout.” Nonprofit C seems to be able to use its accounting software more effectively in managing its endowment funds. Participant two stated there was an update to the software to allow for the changes in accounting as mandated by AU 2016-14.

Participant two noted the organization has in place an investment and spending policy. Participant one stated nonprofit C has a windfall policy with all bequests earmarked presently for the endowment due to the overall strength in its operations. The major gifts committee reports on such gifts to the board on a monthly basis. Participant one disclosed, “there is no separate resolution adopted to designate endowments” and that gifts are received by means of a consent agenda, which allows all items to be approved in one action versus individually. Participant three was also not aware of any system where resolutions were separately adopted for quasi-endowments.

The salient information gathered from the interview questions posed to those participating within nonprofit C related to the system employed and the fact multiple spreadsheets exist in comprising a portion of the system as noted by participant two. The lack of pertinent documents being accounted for in one place was obvious in the responses with the participants describing the documents are maintained in a number of folders in various filing systems in different locations within the accounting area. The lack of adopting specific resolutions designating endowments and a system for documenting such items stood out. The information as gleaned from this section of the interviews provided some information combined with that obtained through inspection and observation in answering the research question as it relates to nonprofit C.

The subset of questions entitled Perceptions of the Present System produced the following information from participants. Participant one noted challenges related to transparency to the board and “making sure that the board understands.” Participant one observed the average board member might understand what an endowment is, but not "necessarily understand the accounting for it and the management of it, and how that needs to take place." Participant one reinforced the idea that "board education and board transparency" as being two primary challenges in endowment accounting. Participant three noted the lack of understanding of endowments and all that is related to them as well. Participant two noted challenges in "staying abreast of changes in the market and reallocation of funds."

The interviews helped develop an understanding of the system for managing endowments and related documentation at nonprofit C. The data gleaned from the interviews was used, along with documents inspected and casual observations made, to inform the researcher in developing the picture of nonprofit C as described below. The information from the interviews, inspection, and observation as discussed next helped answer the research question as it pertains to nonprofit C in the summary section on the entity below.

Overall environment. Greenlee et al. (2007) noted the importance of the organization's environment and setting the proper tone. Byers et al. (2015) observed how control is central to the management of organizations and its role within the environment. Nonprofit C is a relatively small organization with a governing board, one executive director, and one business manager who serves as the accountant. Others employed by the organization are on a full- or part-time basis but have no significant role in the management of endowment funds. The researcher interviewed the executive director, business manager, and one board member who seem to take their role in the accountability for endowment funds seriously.

The investment committee of the board of directors has a good understanding overall of the investment of endowment funds and the tracking of endowments as described by participant two. Over time, the board will generally include a couple of members who have a basic understanding of accounting for endowments. Board members will turn over. While a basic understanding regarding endowments among board members exists, there is the lack of an in-depth understanding of endowment accounting.

The task of accounting for endowments falls primarily to the business manager. The business manager prepares financial information and presents this data to the board on a monthly basis. An external investment manager and nonprofit members review quarterly, financial information. The executive director, business manager, investment and major gifts committees of the board are primarily the ones who monitor the endowment funds, their investment, and payouts. The executive director maintains responsibility for much of the financial reporting with the board providing oversight.

The predecessor to the current executive director made a priority of developing a culture of building endowments within the nonprofit. The predecessor is a current board member and he makes fostering gifts a priority through building and maintaining relationships with donors. The organization seeks to build the endowment fund with restricted or designated gifts, which are unrestricted as to earnings. A long-term approach to building the endowment fund overall is to provide a source of income for operations is an objective of the board. Nonprofit C accounts for a number of gift annuities within the organization’s endowments; the presence of gift annuities largely relates to the endowment building activities of the predecessor. The current executive director maintains a similar commitment to endowment building. The nonprofit designates gifts or memorials made to the nonprofit not restricted by the donor for the endowment fund.

Education and training. Johnson (2009) noted education and training as being important to nonprofit governance. The executive director and business manager both hold bachelor’s degrees. The business manager holds a degree in accounting; he and has taken supplemental courses related thereto. The executive director holds a certification in fundraising, which requires continuing professional education for the designation’s maintenance. The business manager, and to a lesser extent the executive director, have learned endowment accounting through on-the-job training and from outsiders, such as the auditor and investment advisor. The nonprofit leverages some professional development courses offered by the national office of the nonprofit. An annual audit guide publication summarizing significant accounting policies and changes disseminated by the national organization focuses on informing those managing the nonprofit as to recent updates.

Policies and procedures. Ahrens (2018) noted the importance of management control systems in contributing to the organization’s overall functioning. Rubino and Vitolla (2014) and Lee (2016) opined concerning the importance of policies to the overall tone and operation of the entity. Nonprofit C has some policies and procedures in place that impact the management of endowment funds. The investment policy details requirements for investment of the endowment funds. The general investment policy provision calls for a mix of 65% equity and 35% fixed investments. The nonprofit is required to liquidate any donated assets not meeting investment policy criteria. The policy is to pool funds for investment purposes to promote efficiency. However, the nonprofit uses a number of accounts across a handful of financial institutions to manage investments. An external investment manager directs the investment activities of the endowment assets. The primary external investment manager selects and monitors investments and the overall portfolio for mix and performance against that prescribed by the investment policy. Standard benchmarks help measure the performance of the investment manager. A meeting with the investment manager and officials of the nonprofit occurs at least quarterly.

The spending policy dictates the manner in which distributions occur from the endowment fund. The intent is to distribute earnings of up to five percent based upon an 11-month rolling average. The organization monitors payouts in such a way as to ensure the preservation of permanently restricted funds. Unappropriated earnings are temporarily restricted.

Nonprofit C utilizes various gift agreements, including an endowment gift agreement to help ensure the proper handling of funds. The endowment gift agreement denotes the type of gift property received, whether the gift is current or deferred, and whether the donor has made a provision through his or her will or in some other manner for the nonprofit. The endowment gift form has a designated place to denote any external restrictions placed on the gift by the donor.

***Endowment Documentation*.** Baker and Collins (2005) opined concerning the importance of maintaining the proper source documentation. Nonprofit C has a number of documents related to the endowments under management primarily maintained in individual file folders in various filing cabinets. The organization maintains information related to each trust held for the benefit of the nonprofit separately, in individual file folders as well. The business manager also maintains certain pertinent information related to gift amounts, investment earnings, and endowment classification in a series of Excel spreadsheets. The business manager maintains some of the information related to endowments in individual file folders. The nonprofit does not have a system of documenting endowments in one place that captures all essential information at a glance or provides a summary for identifying pertinent features of each individual endowment as a quick reference for historical purposes.

***Accounting*.** Baker and Collins (2005) opined concerning the relevance of accounting information and reporting systems. There are some checks and balances in place to help ensure the proper accountability and utilization of funds. Rubino and Vitolla (2014) noted the importance of properly applying accounting policies consistently. Rossouw (2006) described the use of fund accounting as an important method and management control. There is one fund used to account for endowments. Those within the organization prepare and review reports of the nonprofit on a monthly, quarterly, or other interval depending on need. The investment committee meets with the external investment advisor to review the investment activity. The business manager reconciles all investment accounts to the endowment fund balance as maintained in the financial software.

The endowment fund within the accounting system does account for all activity of the endowments and external trusts. The income of the external trusts is unrestricted as to use and therefore recorded in the operating fund of the nonprofit. The business manager produces financial statement information from the financial software, including the endowment fund. Subaccounts provide a reasonable amount of detail within the accounting software related to endowment funds. The business manager must further break out some information required for reporting of the endowment fund. The software provides the required information for FASB AU 2016-14 as updated, which will be required for the current reporting period.

Summary and observations. The present system does not provide a very straightforward and user-friendly manner of documenting and accounting for endowment funds. The system does not provide a good summary, in one place, of the important features of each endowment. There should be a system in place for documenting and accounting for endowments in such a way to provide an accurate, historical reference. Such a system would serve the purpose of providing continuity and help ensure the proper accountability over endowments and their earnings in the face of staffing changes over time.

Nonprofit C would spend considerably more time proving the classification of their endowment funds due to the maintenance of documentation in a number of locations, not linked, and in no certain order. Additionally, the files presented contain numerous documents, but there is no system dedicated to organizing the essential, pertinent documents related to the specific endowments examined to substantiate classification in the financial statements or proper use. Nonprofit C is vulnerable should they encounter a turnover in staff where the present system is not user-friendly and easy to follow

Another theme emerging from the interviews conducted relates to the need for additional training and education pertaining to accounting for endowment funds. As noted elsewhere, endowment accounting is very specialized. The business manager noted the very general nature of training he has received with not a great deal of specificity related to endowment accounting.

In answering the research question, the system employed by nonprofit C does not minimize all risk that it will be in compliance. The individuals engaged at nonprofit C understand how the system works presently. However, there is a risk that with staff turnover, the effects of time, and the like, that the organization could lose pertinent information regarding classification of its endowments, this puts the entity at risk of misclassification, a lack of accountability, and thus poor stewardship.

Within its system of accounting for endowments, nonprofit C adheres to the following best practices. The board maintains an environment conducive to sound oversight and management of its endowments. The board has adopted policies related to the management of endowment funds, including policies on investments, spending or payout, and windfalls. The board is aware of its oversight responsibilities and fiduciary duties. The board holds meetings regularly and monitors endowment investments.

Education and training continues to be one area for improvement for nonprofit C. A recurring theme throughout the study is the need for additional education and training in endowment accounting. Those interviewed expressed this need or it became evident during the interview process due to the specialized nature and infrequent use of such knowledge.

Nonprofit C has deficiencies as it regards noted best practices. It does not clearly document designated endowments in its board minutes. The nonprofit inconsistently used a gift acceptance policy or donor agreement. A gift acceptance policy or donor agreement should provide for the clear designation of any donor restrictions, and provide for investment and use provisions. The board should acknowledge acceptance of the donor agreement and include it in an endowment register for tracking purposes over time.

The document management system in use does not comply with best practices as it contains noted deficiencies. Filing cabinets, in a number of locations, hold the endowment documents under management. The nonprofit maintains the documentation in no particular order. There is no register of endowment funds with a page or section dedicated to each endowment and organized to promote ease in access and efficiency. A proper document management system advocated though best practices ensures the maintenance of all pertinent documents, minimizes the risks of noncompliance, and is easily transferable to the next generation of users, among other things.

The system in use is bifurcated or split with endowment information summarized on multiple spreadsheets. Endowments inherited through a merger are not separately tracked, but included in the main endowment fund. The nonprofit accounts for trust funds and gift annuities separately, yet in the same fund. A best practice would be to include all endowments and trusts in the same order as in the register and on one spreadsheet or grid. Such a system would promote ease of use in determining proper classification and would tie out with the fund overall and required reports.

The foregoing summarizes some of the best practices and deficiencies of nonprofit C. The study was designed to answer the research question at each nonprofit studied. The best practices advocated in Appendix B includes additional beneficial practices to for use by nonprofit organizations. The scope of the study was not such to cover all areas included in the checklist contained in Appendix B.

Synthesis of Endowment Documentation and Systems Findings. The study focused on three related Midwestern nonprofits. These nonprofits were relatively small and operated in the immature nonprofit industry. The mature nonprofit industry would include nonprofit colleges and universities, as well as, nonprofit hospitals. In such institutions, the systems of accounting and management as pertaining to endowment funds would likely be more sophisticated. Smaller nonprofits could benefit from emulating many of the practices of managing and accounting for endowments from the mature sector. However, one should not assume too much when considering endowment documentation and systems of endowment documentation regardless of institutional size.

In answering the research question of how the three affiliated Midwestern nonprofits control endowment funds through the management of documentation to ensure they are not at risk of noncompliance with donor-imposed restrictions or applicable accounting requirements over restrictions and designations, and comparing and contrasting the three nonprofits studied, one obvious distinction is made. The research indicates the distinguishing features of the three nonprofits pertains to the systems they employ or lack of systems used in accounting for endowments. Nonprofit A has an innovative system for managing endowments, which has several advantages. Nonprofits B and C are likely more typical with files, documentation, and accounting records spread throughout several filing and accounting systems, both manual and automated. The system used by nonprofit A summarizes the required information and provides a limited, focused reference with the endowment register and endowment grid as described in the section covering nonprofit A, above. The system used by nonprofit A provides for more effective governance and control as noted as being important by Salvoni (2005) and helps it maintain its legal and ethical obligations as opined on by Gordon (2013).

This researcher has many years of experience in accounting and auditing. He has become accustomed to going into the unknown and quickly gaining an understanding of the environment and assessing various accounting records. The point being, if the system proves challenging for this researcher to understand, then the system will be even more so for one with little to no experience in accounting, especially accounting for endowments with all of the related complexities pertaining to restrictions, designations, and the like.

Therefore, an objective should be to employ systems that are straightforward with ease of use in identifying and tracing items throughout. Nonprofit A has such a system with the entity's register and grid. Nonprofits B and C have disjointed bifurcated systems that can be difficult to understand and follow. Nonprofits B and C have reams of endowment related files, but no one can discern with a reasonable degree of ease as to whether these institutions have the pertinent documents for purposes of determining classification as to restrictions and designations.

As noted, Nonprofit B has a bifurcated system with documents listed in a particular order in one place and summarized in another order elsewhere. The endowment documentation is in binders but not linked with each specific endowment. The nonprofit separately documents the activity of each trust. The activity of the endowments, while tracked together on one spreadsheet for investment purposes, are reported in total separately and exclude trust activity belonging to the endowment fund. The separate reporting does serve the purpose of allowing the board to review only the endowments under the organization's control, but a better way would be to summarize the total activity of the endowment fund as reported on the financial statements in an Excel spreadsheet. A summary should list each endowment in such a manner as to identify a subject endowment with a separate register of endowment and trust documentation listed in the same order. In other words, all documentation would flow from an overall register to a summary spreadsheet.

Nonprofit B is small and controls few endowments and trusts. However, a streamline system of accounting for all endowments and trusts in one place would aid future staff who thrust into the position of accounting for endowments and want assurance they are properly handling funds. Such a system would also help ensure the maintenance of the documentation of each endowment or trust in the proper order to serve as a quick reference, denoting any restrictions to aid in the proper accounting treatment. The executive director and accounting specialist expressed interest in such a system when interviewed.

Nonprofit A has such a system. One can easily trace from the spreadsheet to the endowment register a certain endowment, review the description in the appropriate register page, examine pertinent documents stored behind the register page, and come to a conclusion as to whether the endowment is properly classified as to restrictions and designations. The spreadsheet itself proves especially helpful in a world of rapid turnover or in situations where one is less than a reasonably informed user, but find themselves in a position requiring stewardship over endowments. The spreadsheet or grid is easy to use by board members in that one can quickly discern the payouts available to the operating budget and to other restricted areas. The spreadsheet or grid also proves beneficial for audit purposes as well; the grid ties out with amounts reported in the financial statements and the overall balance of the endowment fund on the ledger.

Nonprofit C lists 20 endowments as being restricted in a spreadsheet provided to the researcher, but what is not clear from this spreadsheet relates to whether such funds are permanently restricted, temporarily restricted, or designated by the board as endowments. The term restriction, while clearly distinct in meaning as used to describe external limits placed on funds by donors, can often be confused with designation, made internally by boards. Included within the number of permanently restricted funds are 10 gift annuities. The spreadsheet includes four unrestricted funds. The spreadsheet lists certain information, such as, the donor, the date of the initial gift, the original gift amount, and the current gift amount. However, one would need to access another spreadsheet to tie out the amounts for reporting purposes. This system involves too many spreadsheets with pertinent information in each, but does not pull all essential information together in one spot. How will the successor accountant fare in deciphering this system?

The files maintained by Nonprofit C are scattered and in a number of filing cabinets. The person who maintains the files at this site does seem to know where they are and was able to locate what the researcher asked for. However, what happens when the inevitable turnover in this position occurs? Lippman and Grimmer (2016) noted how operational changes occur for making adherence to donor restrictions difficult and resulting in the failure of proper governance and the lack of proper stewardship over gifts received.

During an examination of the system in place at nonprofit A, this researcher noted the endowment register contains a page for each endowment with pertinent descriptive information related to each and serves as a quick reference as to pertinent documents for the purpose of determining classification as to restrictions and designations. The researcher also noted of the system, while innovative and superior for providing the information needed for proper accountability and stewardship, that the endowment register remains a work in progress in being a source for securing all pertinent documents. For a few endowment entries examined, this researcher noted no additional supporting documentation as being included with the endowment register summary page. However, one could easily determine where the holes are in accounting for endowments at nonprofit A. One would have to sift through sometimes-extensive documentation at nonprofits B and C to draw the same conclusion or find historical documents that convey pertinent information, such as will provisions, donor agreements, and the like. However, the historical descriptions were adequate to ensure proper classification in these few instances at nonprofit A. Nonprofit A continues to review the historical documents possessed by the organization for pertinent items related to endowments under management. Those within nonprofit A advocate the system in use by the organization as a best practice. This system will also be included in the recommended best practices section of this paper.

Summary of Findings. This applied doctoral qualitative research was conducted to answer the research question as posed in section one: How do affiliated Midwestern nonprofits control endowment funds through the management of documentation to ensure they are not at risk of noncompliance with donor-imposed restrictions or applicable accounting requirements over restrictions and designations? The specific problem researched related to the manner in which the nonprofits studied controlled endowment funds. Moreover, whether they had maintained adequate documentation and a system of documentation to not be at risk of noncompliance with donor-imposed restrictions, board designations, laws and regulations, and applicable accounting pronouncements, and thus be further at risk of improper stewardship of a major source of funding and accountability to donors and other stakeholders.

The findings relate to the conceptual framework (Figure 1), which serves as a map or a guide to the overall research. The research explored how selected nonprofits document endowments, and whether they have maintained a system of supporting documentation for ensuring proper accountability. The conceptual framework illustrates which ideas from the literature ground the research conducted and shows endowments as being externally restricted or internally designated. The framework denotes some pertinent documents necessary for documenting such restrictions or designations. The conceptual framework shows how an organization would be at risk of noncompliance for the use of funds, reporting, compliance with laws and regulations, and providing audit documentation where an adequate system does not exist to control and support endowment classification.

The findings from the study indicate nonprofit A has a sound system in place for managing its endowment funds. One can make a quick assessment of the classification of the endowments for reporting purposes as detailed in the grid used by nonprofit A. At a glance, one can determine from the grid the income available to the nonprofit for the ensuing budget year. The Endowment Register provides a valuable source of information related to each endowment displaying some historical perspective and supporting documentation as to proper classification of principal and income. In answering the research question, nonprofit A has a system in place that minimizes the risk of being in noncompliance and allows the organization to be a good steward of its endowment resources and accountable to stakeholders.

Findings related to the systems employed by nonprofits B and C indicate deficiencies or weaknesses in their systems, which could place them at risk of being in noncompliance. The systems in place at nonprofits B and C for documenting and accounting for endowments do not facilitate a succinct and accurate, historical reference of pertinent documents and information. A succinct and accurate system serves the purpose of providing continuity and help ensure the proper accountability over endowments and proper use of their earnings in the face of staffing changes over time.

A salient theme emerging from the interviews conducted relates to the need for additional training and education pertaining to accounting for endowment funds. As noted elsewhere, endowment accounting is very specialized. Those interviewed noted the very general nature of training, if any they have received with not a great deal of specificity related to endowment accounting.

Within its system of accounting for endowments, nonprofit A, B, and C adhere to the following best practices. The board maintains an environment conducive to sound oversight and management of its endowments. The board has adopted policies related to the management of endowment funds, including policies on investment and spending or payout. Nonprofit A has a gift acceptance policy and agreement. Nonprofit B has several stewardship policies for managing cash funds in general. Nonprofits A and C have windfall policies to take advantage of one-time large donations.

The boards of nonprofits A, B, and C are aware of their oversight responsibilities and fiduciary duties. The boards hold meetings regularly and monitor endowment investments. Nonprofits A and B document the acceptance of new gifts within the board minutes. The receipt of a new gift without restrictions is subject to the windfall policy at nonprofits A and C. If the board of nonprofit A designates such a gift as a quasi-endowment, a documented endowment register page is included in its board minutes and endowment register for historical purposes.

The endowment register and grid serve as the primary means of management control over endowment funds at nonprofit A and constitute a best practice in managing source documents and endowments. The board of nonprofit A has adopted its present system as a best practice. A page within the endowment register of nonprofit A documents each endowment. The register page contains historical, descriptive information to ensure proper classification. The register includes pertinent endowment documents behind each applicable register page. The register lists endowments in a particular order for easy access.

The endowments grid in use by nonprofit A lists endowments in the same order as in the endowment register to facilitate ease in access. The grid of nonprofit A serves as a subsidiary ledger. The grid ties back to the endowment fund in the accounting system and forward to the financial statements. The grid succinctly lists endowments as to classification and summarizes the income available for budgetary purposes.

Nonprofit B has deficiencies as it regards noted best practices. It has no gift acceptance policy. A gift acceptance policy or donor agreement should provide for the clear designation of any donor restrictions, and provide for investment and use provisions. The board should acknowledge acceptance of the donor agreement and include it in an endowment register for tracking purposes over time.

The document management system in use at Nonprofit B does not comply with best practices as it contains noted deficiencies. One interview participant stated, he “believes” the nonprofit has all of its pertinent documents. The nonprofit maintains the documentation in no particular order. There is no register of endowment funds with a page or section dedicated to each endowment and organized to promote ease in access and efficiency. A proper document management system ensures the maintenance of all pertinent documents and is easily transferable to the next generation of users, among other things.

The system in use at nonprofit B is bifurcated or split with endowments summarized on one spreadsheet, listed in a different order on another, with trust funds accounted for separately, yet in the same fund. A best practice would be to include all endowments and trusts in the same order as in the register and on one spreadsheet or grid. Such a system would promote ease of use in determining proper classification and would tie out with the fund overall and required reports.

Nonprofit C has deficiencies as it regards noted best practices. It does not clearly document designated endowments in its board minutes. The nonprofit inconsistently used a gift acceptance policy or donor agreement. A gift acceptance policy or donor agreement should provide for the clear designation of any donor restrictions, and provide for investment and use provisions. The board should acknowledge acceptance of the donor agreement and include it in an endowment register for tracking purposes over time.

The document management system in use at nonprofit C does not comply with best practices as it contains noted deficiencies. Filing cabinets, in a number of locations, hold the endowment documents under management. The nonprofit maintains the documentation in no particular order. There is no register of endowment funds with a page or section dedicated to each endowment and organized to promote ease in access and efficiency. A proper document management system advocated though best practices ensures the maintenance of all pertinent documents, minimizes the risks of noncompliance, and is easily transferable to the next generation of users, among other things.

The system in use at nonprofit C is bifurcated or split with endowment information summarized on multiple spreadsheets. Endowments inherited through a merger are not separately tracked, but included in the main endowment fund. The nonprofit accounts for trust funds and gift annuities separately, yet in the same fund. A best practice would be to include all endowments and trusts in the same order as in the register and on one spreadsheet or grid. Such a system would promote ease of use in determining proper classification and would tie out with the fund overall and required reports.

The findings of this study helped produce a set of best practices for use in the oversight, management, and accounting for endowments within nonprofit entities. As noted from the nonprofits studied, each remains in a different place in terms of accountability for endowments, with nonprofit A demonstrating the most in terms of putting a system in place to ensure proper accountability and stewardship. The information gathered at each of the three nonprofit sites was used to inform the best practices guide, with the endowment register and grid as developed and used by nonprofit A being a key piece of the best practices section on endowment management systems.

Applications to Professional Practice

The findings of this applied doctoral multiple case study are relevant beyond the world of academia. The findings of this research are useful for understanding the need for and improving the systems used by nonprofits in managing their endowment funds. A review of the findings in relation to applicable accounting pronouncements and other requirements, as well as, types of endowments under management of the nonprofits studied to underscore the need at each entity for a sound system of management to ensure compliance. A brief discussion of the implications related to the themes of stewardship and accountability from a biblical framework perspective are covered. A summary section will elaborate on the need for nonprofits to have a robust system for tracking and managing endowments in place to maintain compliance with the accounting pronouncements and other requirements mentioned, and to provide for adequate accountability to stakeholders, such as donors.

Compliance with Applicable Accounting Pronouncements. The findings of the research indicate the need for a robust system to manage endowments and related documentation to minimize risks related to being in noncompliance with applicable accounting standards through improperly accounting for and reporting endowment funds. The findings indicate nonprofit A has such a system. Certain accounting rules as established by the FASB are applicable to the nonprofits studied. The standards noted are applicable to nongovernmental or various types of private nonprofits such as those included in the research. Addressing the findings in relation to the applicable standards serves to underscore the need for a robust system of tracking and managing endowments to meet these compliance requirements of professional practice.

The endowment register and grid system in use by nonprofit A serves as a best practice in accounting for endowments. The system in use by nonprofit A provides for a succinct means of organizing documents and classifying endowments to ensure the proper recording of contribution and presentation of revenue, including accounting for restricted revenue, and restricted net assets by nonprofit A as required by *Statement of Financial Accounting Standards 116 (FASB 116), Accounting for Contributions Received and Contributions Made.*

The system in use by nonprofit A also helps ensure compliance with *Statement of Financial Accounting Standards 117 (FASB 117), Financial Statements of Not-for-Profit Organizations,* which focuses on financial statement reporting and net asset classification with net asset classes aggregated as to contributions with like restrictions. The endowment grid accomplishes proper classification per FASB 117 by categorizing endowments so they can easily be distinguished as unrestricted, temporarily restricted, and permanently restricted. The categorization of endowments as noted also enables compliance with FASB staff position *FAS 117-1,* which provides guidance on the net asset classification of donor-restricted endowment funds subject to the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and disclosures related to donor-restricted funds and those which have been board designated.

The system employed by nonprofit A will also help ensure compliance with FASB Update 2016-14, which addresses revised reporting requirements related to net asset classifications and related disclosures. Each of the nonprofits studied were aware of the changes related to this update. Nonprofit A was advance implementing this requirement; a copy of their 2017 audit report was not available for inspection however at the time of the site visit.

For purposes of this study, it was assumed endowment classification within the financial statements was proper at each nonprofit studied. However, the findings suggest the systems employed by nonprofits B and C do not sufficiently reduce the risk of being in noncompliance with applicable accounting pronouncements. The burden of proof rests with those in charge of nonprofits B and C. Nonprofits B and C would need to do extensive research to glean documentation required to prove the classification of endowments under their control. Additionally, auditors would not easily be able to verify classification for purposes of substantiating financial statement amounts and note disclosures.

Proper Classification of Endowment Types. The nonprofits selected for study make the accumulation of endowment funds a top priority as a part of their overall strategy. The nonprofits studied receive endowments as monetary donations to provide a means of ongoing support and long-term stability. The following discussion relates endowment types presently held by each entity, which require compliance and financial presentation and disclosure in keeping with the foregoing standards from professional practice.

The endowment types noted below are integral to the need for a robust system of tracking and managing endowments. One primary purpose of the grid or spreadsheet employed by nonprofit A is to document endowments by their type for ensuring their proper accounting treatment under the foregoing pronouncements. Additionally, the spreadsheet or grid helps to ensure the documentation of each endowment as to type to ensure compliance with donor wishes or board intent. Best practices advocate for controls and a system for managing endowments based on the need to distinguish between various endowment types. Findings indicate the nonprofits studied held permanent and quasi-endowments with both restricted and unrestricted earnings.

Barrett (2007) observed a proactive approach to document management and records retention is essential to good governance, decision-making, and risk management. Organizations should employ systems such as that in place by nonprofit A. The grid used by nonprofit A documents or categorizes endowments as true or permanently restricted as to principal but unrestricted as to earnings and permanently restricted as to principal and earnings. The grid also allows for the classification or categorization of quasi-endowments, which are not restricted as to principal but designated as funds functioning as endowments by action of the governing board. Unrestricted and restricted are proper classifications of the earnings of quasi-endowments. The findings indicate the system in place by nonprofit A I sufficient to minimize risks related to classification, with documentation supporting the classification easily accessed from the endowment register. Nonprofit A documents all board designated endowments in its register by including the adopted board resolution.

The systems employed by nonprofits B and C are deficient and leave their respective entities at risk of noncompliance as to classification based on endowment type. Nonprofits B and C do not have in place a system, which provides easy access to documents pertinent to classification. One must hunt and search through file folders and/or scores of documents to track down those with references indicating the classification of the related endowments. Such a system leaves an organization vulnerable during times where organizational change may occur, such as turnover of personnel, where familiarity of the present system is lost. Lippman and Grimmer (2016) observed oftentimes, operational changes occur for benefiting organizations due to a variety of circumstances making adherence to donor restrictions difficult; such events can result in the failure of proper governance and thus a lack of proper stewardship over gifts received. A lack of adequate supporting documentation and/or a system of maintaining such documentation can leave an organization at risk of non-compliance and can jeopardize the fiduciary or agency responsibility of their board and others within the organization.

Other Requirements. The nonprofits selected for study are also subject to various other requirements. Those under study are required to file an annual tax return with the IRS known as Form 990. As a part of Form 990, the nonprofits studied are subject to a variety of disclosure and compliance requirements through various schedules, which are attachments to the form. The Form 990 return is informational and does not require the payment of taxes, as nonprofit organizations are tax-exempt. As a practice, the accounting firms performing the annual audit of each nonprofit prepares and files the federal Form 990, and any related state filings, from the audited financial statements. Benzing et al. (2011) noted Form 990, as revised by the IRS in 2008 will eventually force most nonprofits to rethink their models of governance. Accounting professional practice, and in some cases the law, requires the studied nonprofits to comply with these other requirements as described below.

The system employed by nonprofit A allows the organization to easily complete IRS Form 990 and substantiate information contained therein through its endowment register and grid. Nonprofits B and C have no such system. Again, their systems do not provide easy access to pertinent documents, which are necessary to ensure compliance.

One provision of the SOX Act requires nonprofit organizations to retain documents to meet legal requirements; where the act or attempt to alter, conceal, or destroy records with intent to impair use in an official proceeding is a violation of the law, obstruction of justice. Only nonprofit A could produce pertinent documents effortlessly.

Chase (2003) opined concerning the importance of a policy on document retention that such a policy should be in place and must be followed and maintained properly, and those within the organization should know it. Apke (2007) observed that organizations should retain documents for a variety of reasons, including for the preservation of knowledge and information essential to the organization and its practices. The system employed by nonprofit A suggests a concerted effort to maintain in readily accessible form pertinent documents related to its endowments. The system employed by nonprofit A improves the accountability of the entity and provides needed transparency for their financial activities as noted by Johnson (2009).

The nonprofit's board and management are also responsible for maintaining a system of internal control designed to ensure the organization achieves the entity's objectives in operational effectiveness and efficiency, producing reliable financial reports, and complying with laws, regulations, and policies. Byers et al. (2015) observed how control is central to the management of organizations. Turpen (2015) stated internal control is integral to practically every activity a nonprofit undertakes. The register and grid system with related requirements for documenting gifts and approving quasi-endowments by resolution, and the like, provide a system of control over managing endowments and related documentation to help ensure the entity's objectives are met, it is operationally effective and efficient, and it has minimized risks of error and noncompliance. The COSO internal control framework is a private sector initiative, but serves as an important guide to nonprofit entities while not requiring adoption.

The nonprofits selected are each required to have annual audits. Rodreck (2017) studied records management and found a high degree of correlation with positive audit outcomes and accountability. Baker and Collins (2005) noted the importance of the audit function in detecting noncompliance with donor instructions or restrictions. Baker and Collins went on to say, to detect instances of noncompliance it is necessary to have proper source documentation such as deeds, wills, and the like. The register and grid system in place at nonprofit A facilitates ease in proof of classification of its funds and related items for audit purposes. The systems employed by nonprofits B and C require one to look in multiple places to ensure classification for audit purposes.

Accountability and Stewardship. The two primary biblical concepts pertaining to this study are accountability and stewardship. While many non-Christians have served as good stewards and been adequately accountable to others in their management practices, a preference would be for those engaged in the management of organizations, more specifically to this study the management of endowments, to possess a Christian worldview perspective. The manager of endowment funds should understand the resources allocated and the individuals and societies impacted, both now and in the future, belong to the Lord. Psalm 24:1 (New International Version) states: “The Earth is the Lord's, and everything in it, the world, and all who live in it.”

Those engaged in the management of endowments are serving the Lord by being stewards for Him by being stewards for others. Those persons or entities gifting endowment funds expect the use of gifts according to any imposed restrictions or other designations.

Managers, and ultimately boards of nonprofits are accountable for the safeguard and use of endowment assets. A direct link exists between accounting professional practice and the biblical themes of accountability and stewardship. The system of tracking and managing endowments at nonprofit A enable it to minimize risks and prove proper accountability and stewardship over assets with minimal effort.

Summary. The financial management and reporting of endowment funds is a major undertaking of many nonprofit organizations. Endowment funds can comprise a major piece of the balance sheet of nonprofits (Bhatti et al., 2014). As noted above, the nonprofits studied are subject to a number of accounting pronouncements, legal requirements, and other reporting provisions. The lack of a system for managing endowment funds and supporting documentation puts a nonprofit entity at risk of noncompliance.

The reputations of nonprofit managers often depend on the results of audits, with inefficiencies in the management of endowment funds possibly causing donors to look elsewhere when considering donations (Puyvelde et al., 2012). Having a proper system for tracking and managing endowments directly links to sound financial reporting and to audit outcomes. Given the size and nature of the endowments of many nonprofits, those charged with governance should develop and maintain a proper system of classification in accounting for and reporting endowments to adhere to imposed restrictions.

While each entity studied was generally able to produce information regarding endowments on request, there exists a vast difference in the system put forth by nonprofit A over those in place by nonprofits B and C. Nonprofits B and C would spend considerably more time proving the classification of their endowment funds due to system bifurcation or documentation being maintained in a number of locations, not linked, and in no certain order. Nonprofit A maintains a straight-forward system beneficial in demonstrating the organization's compliance with accounting pronouncements, laws and regulations, and any donor restrictions or board designations in place via the entity's endowment register. The grid or spreadsheet of nonprofit A has proven useful for substantiating financial statement classifications and payouts.

The section below, Recommendations for Action, explores some best practices in the management of nonprofits pertaining to endowment funds. Systems for properly managing supporting documentation are included within the best practices described. Nonprofits can improve their systems to track and maintain documentation of their endowment funds to avoid being at risk of noncompliance with laws, regulations, reporting requirements, and sound control practices. The best practices noted below are in response to the findings of the study and address a gap in the literature related to the understanding and effective practice of managing endowment funds to comply with financial reporting, other requirements, and to be good stewards who are accountable to donors and various stakeholders.

Recommendations for Action

The results of this research are relevant and may be generalizable to other nonprofit organization managing endowment funds. The results of this research would also may be beneficial to parties outside the nonprofit entity, such as, professional accountants and those engaged in consultative or advisory roles where the focus of their practice would be the nonprofit sector. The findings of this research paper led to the discussion of some best practices for those engaged within the nonprofit sector. The best practices listed focus on endowment management.

The research yielded in part the best practices discussed below. A best practice checklist is contained at Appendix B.

The information gathered at each of the three nonprofit sites informed the best practices guide as documented below. There are two distinct areas within the best practices related to the nonprofits studied. First, would be the overarching set of best practices relating to the balanced scorecard approach, governance, the environment, roles of individuals, education and training, and the like. Then, the next would include the significant part for purposes of this research, the focus on endowment documentation, controls over endowments, and an endowment management system. In each section below the relevance for the nonprofits studied is noted.

Endowment Management Best Practices. Nonprofit governance has gained attention in recent years with a number of interested parties developing guiding best practices. Such practices as promulgated by the National Council of Nonprofits or those of various states focus on the entirety of the nonprofit entity. While there exists a discussion of governance applicable to nonprofits in general, the focus herein will be to describe best practices as a starting point pertaining to the management of endowment funds.

While nonprofits are under no obligation to accept endowed gifts, if they do, they must be willing to comply with the terms of any donor-imposed restrictions and perform the necessary administrative functions, both presently and in the future. The nonprofit managing endowments should set up a structure to help guard and manage assets for the future wisely. The best practices described herein help those interested in setting up such a system.

***Balanced scorecard approach*.** Creating a system deemed strong and sustainable will put a nonprofit organization in a positive position related to accountability and stewardship over endowment assets. Karns (2011) observed the stewardship theory of management focuses on the practices of management as opposed to the greater purpose of business and its role in society. A sound system of managing endowments will lend credibility to an organization when being considered for large donations. Nonprofits should include endowment metrics in their performance measurement scorecards pertaining to the four dimensions: financial, customer, internal process, and innovation or learning and growth. The four dimensions are interrelated as can be noted from the examples below.

The financial dimension is pertinent to endowment management. One measure would be to include within the investment policy of the nonprofit provisions for review of investment performance against external benchmarks such as the S&P 500 Index or Barclays Capital U.S. Aggregate Bond Index. Another financial measure would be a benchmark for accumulating endowment funds to provide a percentage of annual income for purposes of stability and diversification. Professional practice considers financial performance measures to be lagging indicators of performance as they generally are used to measure where an organization has been, the past performance of the nonprofit.

Nonprofits can use the customer dimension in endowment management to measure effectiveness in being accountable to various stakeholders, such as donors. Management can establish metrics for stewardship, accountability, and reporting with donors in mind to provide feedback on the use of donated resources. Such measures would help ensure donors were provided with information as to how their gifts were used could build confidence in such a way as to drive further giving. Those interviewed at the three nonprofits studied expressed interest in such a system and thought a sound system of managing endowments to be beneficial.

The internal process dimension as used by nonprofits contributes to the improvement in the overall system of managing endowment funds. Continuous process improvement in managing endowments could focus on the overall system of documenting endowments and financial reporting. Metrics in the area of internal process as related to endowments focus on developing a system that promotes ready access to adequate supporting documentation for each endowment while maintaining donor confidentiality. Other measures could focus on improvements to the system of providing supporting documentation and traceability for financial reporting, such as the use of a register for documenting pertinent features of endowments and a grid for summarizing and classifying endowment funds.

The innovation or learning and growth perspective relates in an important way for those managing endowments. A recurring theme in the study was the need for training or access to expertise in managing endowment funds. Management should continuously seek out opportunities for training and have procedures in place that guarantee access to those with specific legal and accounting knowledge regarding endowments.

The nonprofits studied do not have in place a balanced scorecard for their particular entity. The national office of the affiliated nonprofits does have a metric making the accumulation of endowments a priority. Beneficial to the nonprofits studied would be the employment of a balanced scorecard tailored to their particular circumstances with the inclusion of the metrics noted above as they relate to endowment accumulation, management, and accountability.

Roles and responsibilities of the governing board. The board of directors of a nonprofit haves as a primary responsibilities the determination of the mission and polices of the organization; to establish the annual program; to develop the fiscal policy of the entity; to hire and evaluate the chief executive; and foster and maintain communication links with the various stakeholders and public at large. Dent (2014) stated that the board of directors of a nonprofit has not only the power, but the obligation to set the direction of the organization and that it would constitute a breach of its responsibilities to delegate this function to another. The board should establish organizational policies and monitor compliance with them. The board would necessarily be responsible for securing funding resources to help ensure the ongoing viability of the nonprofit in carrying out the mission of the organization.

When assessing where to begin in the development of best practices, one should start with determining where the status of the organization’s present system in terms of the management of endowment funds under the entity’s control. Those charged with governance over endowments, such as the governing board working with the executive director, should review the current environment and the fit of the endowment document and management process with the strategy of the nonprofit. Financial policies over endowments should ensure the organization has a healthy and effective governance system in place.

The governing board would also be responsible for ensuring that the organization’s accountability to contributors, members, the public, and government regulators. The directors of nonprofits have a fiduciary responsibility to manage endowment funds with the benefit of their organizations in mind and should ensure the appropriate use of the organization’s assets as noted by Liu (2010). Accountability requires that the organization: comply with all applicable laws and ethical standards. Accountability also requires adherence to the organization’s mission; create and adhere to conflict of interest, ethics, personnel, and accounting policies; protect the rights of members; prepare and file an annual financial report with the IRS and state regulatory authorities, where applicable; and make the report available to all board members and requesting members of the public. The development and maintenance of internal controls helps ensure accountability.

The board of the nonprofit must be aware of pertinent fiduciary duties. The duty of care requires board members to provide careful oversight of financial activity and question any activity that seems troubling. Bartholomew (2015) noted that duty of care involved, among other things that board members are to maintain financial accountability. The duty of loyalty obligates board members to put the interests of the nonprofit above his or her own; this includes making use of a conflict of interest policy as may be applicable. The duty of obedience requires complying with all applicable federal, state, and local laws, making the required filings, and compliance with the governing documents of the nonprofit. While these duties apply to the governing board as related to the entirety of activities of the nonprofit, from herein they pertain to endowment management.

In developing best practices, one should keep in mind that the primary responsibility of the governing board is oversight of the nonprofit's mission. The programs and activities offered by the nonprofit are the avenues used to achieve the mission. Financing the programs and activities of the organization and thus the overall mission falls in part to the endowments under management. Generally, nonprofits view the accumulation of endowments as a part of their fundraising activities. Bartholomew (2015) opined directors have responsibilities related to financial oversight, as it is their core imperative.

Ellis (2011) and Fishman (2014) observed that the governing body is ultimately responsible for monitoring the organization's endowments. The governing body and staff responsible for endowments should be educated about fundamental legal, accounting, audit, and tax issues related to endowments. Such training or information would also include applicable federal, state, local, and possible international laws and regulations that may be relevant to accounting for endowments. Nonprofits should be aware of the requirements of separate fund accounting for restricted funds such as endowments. The nonprofit should know when to seek outside legal and/or accounting advice as needed to ensure compliance.

The governing board maintains responsibility for the annual audit of the organization. An audit committee of the board should exist to oversee the audit separate from any finance or budget committees. The organization should make audit reports available to all stakeholders upon request.

The board often has an investment or finance committee which oversees drafting an investment policy for endowment funds (Fishman, 2014) and serving as the center for good governance of endowments (Ellis, 2011). The nonprofit board in charge of sizeable endowments may choose external investment managers to handle the investments of the nonprofit. In such instances, the board, or a separate committee of the board, should regularly review the activities of the external investment manager. The board or committee would review such activity for compliance with the approved investment policy as a matter of good stewardship.

Nonprofit A uses the endowment register and grid to account for the endowments under management in such a way as to allow the organization to report to major donors with the performance and use of the gifts of these stakeholders as an objective. Nonprofit A continues to work toward this end. The executive director of nonprofit B stated developing a system of reporting to major donors would be beneficial and a desirable objective not yet addressed. Nonprofit C did seem to have the best handle on this to date where one board member, who was a prior executive director, continues to engage with major donors of the nonprofit and meets with them regularly. The current executive director conducts tours of facilities with major donors to keep them engaged in and help them to understand or see how they have benefited the mission of the nonprofit. However, nonprofit C has no formal policy on donor engagement.

Each nonprofit uses the same software for managing donors. This software was implemented only recently and will allow each nonprofit to track meetings with donors, donor interests, gifts and dates of gifts, and the like, for purposes of maintaining these important relationships. This software should prove very beneficial to each nonprofit once they become accustomed to using the program and take advantage of beneficial features.

Access to expertise in endowment management. In determining the composition of the governing board, one should consider the need to include those with knowledge of financial matters and endowment related issues where possible. Harris (2014) described the role of board diversity and the need for board expertise. Written descriptions detailing responsibilities and duties of governing body members and committees of the governing body, particularly committees overseeing endowment management, require formalization and adoption. When filling positions one should seek to complement the skills and abilities of existing members to include those with a minimal level of understanding of managing endowments where possible.

There are a number of ways to ensure members of the governing board have the requisite knowledge to oversee endowment management practices. Learning and training opportunities promote board or committee role development. Access to subject matter experts for consultation or inclusion on the appropriate sub-committee is important.

Access to expertise is of importance to each of the nonprofits studied as noted by the researcher. A theme coming out of interviews with the executive director and person responsible for accounting for endowments at each site was the need for training and the value they receive from those on the outside in guiding their accounting and management of endowments. Harris (2014) described the role of board diversity and the need for board expertise. Johnson (2009) observed the nonprofit management environment is vulnerable where there is a lack of training, resources, experience, and support.

Nonprofit A has an individual who has taken a major interest in the development of the accounting register and grid to ensure accountability. The individual noted has aided nonprofit A in documenting the endowments under management to facilitate compliance with accounting pronouncements, including providing assistance to the nonprofit in the advance implementation of AU 2016-14 for the year 2017. Nonprofit B relies more on the manager of the investment portfolio to provide a classified spreadsheet based on an understanding of the types of endowments under management. Nonprofit C also relies considerably on the entity's investment manager, but does have, in the business manager, a person with a good grasp on the accounting for endowments. The boards of each nonprofit studied do have persons with varying degrees of ability in endowment management.

Role of executive director and endowments. The executive director has a responsibility for carrying out the strategies, policies, and procedures as adopted by the governing board. The executive director also has a responsibility for ensuring compliance with legal, accounting, and ethical requirements, among others. The executive director must carry out his or her responsibilities in keeping with the same fiduciary duties noted of the board. Dent (2014) cautioned that directors of nonprofits are oftentimes disengaged, deeply flawed, and that they frequently, seriously underperform. While these responsibilities of the executive director pertain to the nonprofit as a whole, the focus here would be on how such responsibilities relate to endowment management.

This researcher maintains, by observation, that each executive director interviewed does not possess an in-depth understanding of the “language” of accounting. The executive director of each nonprofit relies on the person performing the accounting function, knowledgeable board members., and those on the outside of the entity, like auditors and investment advisors, for guidance. This makes the endowment register and grid employed by nonprofit A even more important. Executive directors face two primary headwinds in being a part of the endowment management process: (a) they lack accounting knowledge and do not speak the language as noted and (b) they frequently turnover, which causes an erosion in institutional knowledge.

Other staff and volunteers. The appropriate training and supervision of staff based on their role within the entity is important. Owen (2004) observed several factors that make nonprofits susceptible to fraud, including an overall environment of trust within the entity; a consistent flow of donations; the use of volunteers to perform essential tasks; limited resources to devote to supervision and investigation; and unpaid boards with little or no financial expertise. Training should include that applicable to endowments and related to the nonprofit’s policies and system for managing endowments, software of the entity, laws and regulations, financial reporting, and accounting pronouncements. There should be a system for an evaluation of policies, procedures, and practices by the board or applicable committee with continuous improvement in mind.

Nonprofits rely on volunteers to carry out their missions. Volunteers who might have some responsibilities relating to endowment management would likely be board members. Training should be available to volunteers who might have duties that intersect with the process of accounting for and managing endowments.

This researcher noted in speaking with the various board members of the respective nonprofits that each one has a concern for seeing the mission of the nonprofit advanced. Those interviewed have taken a special interest in endowments and the tracking and management of endowments. These concerned board members seemed to have some understanding of endowments and accounting for endowments, but only one, the person affiliated with nonprofit A noted as developing the endowment accounting register and grid would truly be considered an expert. The volunteer board member with nonprofit B has more of a legal understanding of the endowments, which serves as an advantage, but not necessarily an accounting understanding where the need for compliance with applicable pronouncements remains necessary.

Endowment management policies and procedures. Financial policies related to endowments should dovetail with the mission, vision, and values of the organization. Such policies should focus on the best interests of the organization and affected stakeholders. Many nonprofits are under pressure to adopt tougher internal control and accountability policies from donors and board members as noted by Yallapragada et al. (2010). Foremost is the need for transparency. Tessier and Otley (2012) described how organizations must implement technical controls to comply with various laws. The governing board should develop, adhere to, and maintain written financial policies related to endowments as deemed applicable to size and mission.

The balanced scorecard approach ties the mission and practices of the organization together. The balanced scorecard aligns the practices of individuals with the mission of the nonprofit through certain policies and procedures covering various routine activities. Specific policies and procedures help align the day-to-day activities of individuals with the organization and the mission of the nonprofit.

Policies related to endowments include those covering: internal controls, permitted investments, asset allocation, and endowment spending, fundraising, and gift acceptance. Any document or manual detailing endowment policies and procedures should be consistent with laws and regulations, applicable accounting pronouncements, and the existing policies and mission of the nonprofit. The governing board should adopt all policies and procedures relating to endowment management. The governing board must periodically review and revise its policies and procedures.

The governing board must monitor risk and risk management procedures in relation to the management of endowments. This should include an emphasis on risks related to fraud, embezzlement, and misappropriation, among others. The nonprofit should consider what could go wrong in the management of endowments that would jeopardize the organization's reputation and tax-exempt status.

Fundraising and endowment gift acceptance can and do intersect. Although not the focus of this study, ethics as prescribed by the Association of Fundraising Professionals covers all fundraising activities. Policies and procedures over fundraising govern adherence to ethical standards.

Nonprofits should have written, clear policies governing the acceptance of gifts, including endowments. Such policies should set out the conditions under which the nonprofit will accept or decline gifts. Gifts should be accepted only if they can be used or expended in a manner consistent with the nonprofit's mission and purpose. Documentation of acceptance or declination of all major gifts, such as endowments is necessary in the minutes of meetings of the governing board.

While not the focus of this research, every nonprofit should have a comprehensive investment policy that drives the management of endowment funds. According to UPMIFA, investment decisions relate to the overall resources and purposes of the nonprofit. The endowment investment policy should differ from the policy governing other investments of the nonprofit.

The objectives of the endowment should have a bearing on the proper management and investment of these funds. For many nonprofits, a primary goal remains to grow and preserve funds for the long-term benefit and stability of the entity while providing a predictable source of income to support current activities. A review of and revision of the investment policy is to happen over time as dictated by changes in objectives or other factors.

The board and executive director should foster and promote a culture of accountability related to endowment funds. The board and management should closely monitor the handling of endowment funds. Internal controls should be in place to ensure the proper oversight and review of endowment transactions and investment activities. A confidential whistleblower procedure should be in place.

From the interviews conducted the researcher noted each nonprofit was concerned about having procedures in place to help management properly shepherd and account for endowments under the entity's control. Each had varying types or degrees of gift policies, including those for handling windfalls, to help ensure the nonprofit made the most of gifts received. Each nonprofit had investment and spending policies in place. Fundraising was addressed to one degree or another by each nonprofit. The nonprofits studied had recently reviewed many of their policies.

Internal control over endowments. Per the AICPA (2017), "internal control is designed, implemented, and maintained to address identified business risks that threaten the achievement of any of the entity's objectives" (p. 31). The AICPA further defines these objectives as the reliability of the financial reporting of the entity, the organization's operational effectiveness and efficiency, and the entity's compliance with applicable laws and regulations.

The COSO (2013) defined internal control as: "a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding achievement of objectives related to operations, reporting, and compliance." Instituting and applying an effective internal control environment remains a part of proper governance and proactive management. Moreover, a strong internal control environment assists nonprofit organizations in fulfilling their fiduciary duties.

The need for a sound system of internal control stems from risks or threats related to financial capture and reporting, legal and regulatory compliance, and organization reputation. Unacceptable risks related to nonprofit entities driving the need for sound internal controls includes the potential loss of major assets, poor business decisions, noncompliance, and public scandals related to endowment funds under management. Turpen (2015) noted internal control represents the entirety of the proactive actions taken by an organization to ensure the achievement of objectives and stated a nonprofit that does not follow an established framework of internal control puts its credibility and funding in jeopardy.

Internal control helps ensure the nonprofit achieves the organization's objectives and provide reasonable assurance, among other things. Financial controls accompanied by an adequate description become part of the accounting policies and procedures manual of the nonprofit. Reviews and updates of the policies and procedures manual periodically occur as a part of good governance. The financial policies and procedures manual should be distributed to each member of the board, the executive director, employees, and where applicable, volunteers.

The financial policies and procedures should address accounting for endowments in a separate section of the manual or be a standalone policy. Many nonprofits have adopted best practices provisions of the SOX Act corporate governance requirements related to internal controls observed Iyer and Watkins (2008).

The nonprofit should properly record all endowment contributions and comply with restrictions or prohibitions on the use of endowment funds. Every organization should have procedures to record and monitor endowment assets received, held, and expended. Those nonprofits studied had varying degrees of control over endowments in place, with nonprofit A having the more robust system of the three, with examples noted below.

Nonprofit A documents in the board minutes all gifts accepted by the organization. Nonprofit A documents by resolution each endowment designated by the board which then becomes the supporting documentation for the endowment register. Each donor agreement serves as the basic documentation accepted by the board of nonprofit A and becomes supporting documentation for the endowment register. Control over endowments by nonprofit A comes primarily through the register and grid system which helps to ensure compliance with laws and regulations and any restrictions or designations. The best practices of the endowment document system noted below has been primarily developed from that put crafted and put in place by nonprofit A.

Endowment document management system. Nonprofits accumulating endowments will come into a host of related documents as a result. Such documents include provisions of wills and estates, trust documents, and other communications from donors outlining intent, among others. A proactive approach to document management and records retention is essential to good governance, decision-making, and risk management (Barrett, 2007). A system of managing such documents safeguards them from loss, ensure proper accountability and stewardship of gifts, including adherence to donor intent.

Those in charge of endowments should act in good faith and exercise the care that an ordinarily prudent person in a similar position would use. Such a person would adhere to all requirements of the gift instrument, take into consideration the purpose of the nonprofit and the endowment funds follow the dictates of the investment policy, consider the economic environment, and issues related to the preservation of the endowment fund.

Rodreck (2017) studied records management and found a high degree of correlation with positive audit outcomes and accountability. Nonprofits should establish and adhere to a document retention policy that provides for key organizational documents, such as those establishing endowments or restrictions and designations on endowments. The organization must secure pertinent documents. Apke (2007) observed that organizations should retain documents for a variety of reasons: to maintain compliance with regulations and statutes requiring the preservation of documents, that such documentation may be required where future litigation occurs, and for the preservation of knowledge and information essential to the organization and its practices. The policy should have a provision designed to guard such documents from destruction. The policy governing the destruction of documents remains a critical piece in the compliance with a provision of the SOX Act where document retention is mandatory related to any legal action initiated against the nonprofit.

The organization must properly maintain written documents pertaining to endowments and other major gifts or contributions to ensure compliance with donor wishes and financial reporting requirements. The system used to manage and track such documents ensures donor identities remain confidential by design. Policies should also describe the circumstance and manner of informing individuals, including surviving stakeholders of organizational changes that may affect the use of gifts.

The doctrine of *cy pres* allows the court to amend the terms of a restricted endowment where the original objective of the donor has become impossible or impractical to perform due to organizational changes. The policies of the organization should spell out how the entity will proceed in seeking to have provisions of an endowment changed without first resorting to legal action. Using the *cy pres* doctrine and going to court to facilitate changes should be a last resort as some view this as a heavy-handed move designed to circumvent the will of the donor.

Overall, nonprofits should develop a program of managing donors with accountability and stewardship in mind. Endowment gift donors will be an important subset of all donors requiring proper management within the organization. A secure software system would be one way to manage donor information and gifts effectively. The nonprofit should maintain adequate records of donations; ensure the cultivation and management of donations with the values of the organization in mind; acknowledge gifts in a timely manner; and ensure confidentiality of donor information unless there exists consent to release. Nonprofits should have policies in place to ensure the use of funds consistent with the intent of the donor whether through provisions made in the solicitation materials or as noted by the donor.

An Excel spreadsheet provides a summary of all endowments the nonprofit has under management. Information pertaining to endowments relating to historical gift value and current market value should be included in the spreadsheet. A crosswalk from pseudo names used in the spreadsheet to actual identities would preserve confidentiality. The frequency of generating the report should coincide with the frequency of financial reporting with the spreadsheet being reconciled to a register of investments and bank balances. A reconciliation to the annual report used for audit and funds ledger (the accounting system) helps ensure accountability and reporting classification.

An endowment register with a page dedicated to each endowment under management is optimal. The maintenance of such a register in Excel is acceptable. It is imperative all pertinent documents pertaining to an endowment link in some manner, by scanning or other means, to the applicable register page. Attaching a copy of the register page for new endowments denoting acceptance by the board to the recorded minutes of meetings documents new endowments. Likewise, any board resolutions designating, restricting endowments or their earnings provides additional supporting documentation within the register. Such a system provides an accurate reference for present and future managers and a source of continuity.

Nonprofits should put some thought into the development of a donor agreement. A donor agreement spells out and allows for the documentation of any restrictions imposed by the donor. The donor agreement document should indicate the manner of investment of donor funds; one accomplishes this by referencing adopted policies on spending and investments.

Only nonprofit A presently maintains such a system. The executive director and accounting specialist of nonprofit B expressed interest in such a system when interviewed. The lack of such a system at nonprofits B and C likely illustrates how the typical nonprofit manages endowments. Both nonprofits B and C could benefit from the implementation of such a system to ensure compliance, and continuity in management and accounting as staff turns over, among other things.

Traceability of endowment records. Financial statements, interim and annual, as well as, the annual federal tax return, and any reports required by the state or others should tie out with the financial records and/or system of tracking endowments. Such reports would therefore fairly represent the financial position and financial activities of the nonprofit. The reports should be accurate as to classifications of revenues, net assets, and the like as required by accounting standards. The board president, chief executive, and/or treasurer review the reports with certification made by the appropriate officials.

Every nonprofit must make certain financial statement disclosures related to endowments reported and whether or not UPMIFA applies. Accounting pronouncements, such as, Generally Accepted Accounting Principles (GAAP) require such disclosures. These external requirements frequently mean additional record keeping for the nonprofit organization. Required disclosures include, among others, descriptions of the nonprofit's endowment spending and investment policies, and of the nature and types of permanent or temporary restrictions on the endowment net assets.

Other reporting requirements include the net asset classification of donor-restricted funds and the aggregate amount of any deficits for all donor-restricted endowment funds where the fair value of the assets at the reporting date remains below the level required by donor stipulations or law; meaning the endowment is underwater. Financial reports will show the composition of endowments by net asset class at the end of the period, in total and by type of endowment fund, with donor-restricted funds shown separately from board-designated endowment funds. Finally, nonprofits should be sure to include a reconciliation of beginning and ending endowments, in total and by net asset class. Those in charge of managing endowments should keep these requirements and others that may apply in mind when developing systems for documenting and managing endowment funds.

One should document the financial information as presented to be auditable. Amounts reported for endowments on the financial statements and tax returns should be traceable to any spreadsheets or other documents used to summarize and track endowments. The traceability should allow for an auditor to properly distinguish the classification of revenues, net assets, and the like as required by accounting standards and provide reasonable assurance such amounts are fairly stated.

Communication remains an important element of being accountable to the public. Transparency is one goal of internal and external communication. Systems of endowment management will not only provide auditable financial information, but also allow for the presentation of information in a manner that demonstrates a commitment to accountability and ethical behavior. Information on endowments should be maintained in such a way so as to allow for incorporation into various communications and facilitate the building of trust.

Each nonprofit has a system with some degree of traceability; however, the system in use by nonprofit A provides the kind of straightforward, transparent traceability that every nonprofit entity should strive for in the management of and accountability for endowments. Such a system would prove useful to auditors and to the nonprofit itself in proving the proper classification of endowments for reporting purposes. The endowment register and grid likewise serve as a means of transparency in allowing the nonprofit demonstrate to stakeholders, such as major donors, the proper degree of accountability for gifts.

Summary**.** The foregoing best practices as based upon the research and findings are a part of good governance, which remains a critical component in the sound management of nonprofits. Good governance communicates sound stewardship and accountability to stakeholders and others. For some, these practices will affirm policies and procedures already in place. For others, the best practices described herein provide a guide to help nonprofits in their stewardship and accountability for endowment funds. As noted from the nonprofits studied, each remains in a different place in terms of accountability for endowments, with nonprofit A demonstrating the most in terms of putting a system in place to ensure proper accountability and stewardship. Best practices should be tailored to meet the specific needs of each nonprofit.

Recommendations for Further Study

This multiple case study contributed to the limited body of literature related to the understanding and effective practice of accounting for endowment funds by nonprofit entities. As noted previously, the limited research existing within the literature generally follows that of Rossouw (2006, 2007) and relates to difficulties nonprofits face when accounting for endowments and their presentation in the financial statements and related disclosures. This research explored the systems of accounting for endowments of three affiliated Midwestern nonprofits and provided information on practices related to management control and systems of maintaining supporting documentation pertaining to endowment funds. A presentation of recommendations for further study is below.

This research was limited to the study of three affiliated Midwestern nonprofits. One could conduct a similar study within other like nonprofits with the intent of reinforcing, refining, and expanding on the present findings and best practices recommendations. One could study larger nonprofits managing endowments with the intent of identifying and reporting on items particular to their management control systems. One might perform a similar study of colleges and universities with the intent of identifying risks and weaknesses within their systems of accounting for endowments with the purpose being to identify best practices to within that environment.

Given the scant material available within the academic literature on accounting for endowments other options for research, exist as well. This work assumed the proper reporting of an endowment as classified. One might analyze the actual reporting of endowments by organizations versus the proper classification and reporting of such funds, along with the implications for those charged with governance. Such a study on classification and reporting could include the adequacy and accuracy of related disclosures as well.

The recent implementation of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as issued by the FASB, which contains changes in reporting requirements presents an opportunity for research. ASU 2016-14 purports to be an improvement or enhancement to the current reporting model and focuses on making the understanding of endowment classification easier for the users of a nonprofit's financials related to unrestricted net assets. A study as to whether affected entities have properly implemented the requirements of ASU 2016-14 and how such implementation has affected the organization's system of accounting for endowments might be appropriate.

A more extensive review of agency theory related to endowment accountability and stewardship could be undertaken. Restrictions placed on endowments and accounting for such restrictions represents a form of agency theory. An agency problem can often arise where the interests of the principals and agents are divergent (Shapiro, 2005). Nonprofits are legally and ethically responsible for the proper stewardship of gifts according to donor intent (Bernstein et al., 2015).

A study within the realm of endowment accounting could be undertaken related to earnings and payouts. One could study whether those charged with governance over endowments have properly adopted and implemented investment and payout policies. A researcher could first determine whether such policies exist within a particular entity and then compare the actual payout practice of the organization against the adopted policies for compliance. One could further study whether such payouts adhered to the wishes of the donor. There are many possibilities for further study within the area of endowment accounting and stewardship given the limited research work done in this area.

Reflections

This section began with an overview of the study, which was to explore the systems of accounting for endowments of nonprofits. The intent being documenting whether such entities were at risk of noncompliance with donor-imposed restrictions, board designations, laws and regulations, and applicable accounting pronouncements related to the stewardship of a major source of funding and accountability to donors and other stakeholders. This applied doctoral qualitative research answered the research question as posed in section one by exploring the way three affiliated Midwestern nonprofits control and document endowments. The results of the interviews, casual observations, and evidence gathered from the examination of documents contributed to answering the research question. The objective of this multiple-case study research was to gain an empirical understanding of whether the nonprofits studied had maintained an adequate system of documentation and control, to determine whether those studied were at risk of noncompliance with donor-imposed restrictions, board designations, laws and regulations, and applicable accounting pronouncements.

The results of this study were only slightly different from what this researcher was expecting. Various factors can attribute to the lack of accountability for endowment funds. First, time can affect accounting through the loss of pertinent documents, institutional knowledge through turnover, and mergers, among others. The researcher did expect to see a greater instance of missing documents, especially for older endowments. However, to one degree or another the impact of all three of the factors contributing to the lack of documentation as noted above were observed throughout the study of the three nonprofits.

From the register, Nonprofit A did not appear to have certain historical documents to substantiate a few endowments. Although, nonprofit A did have a register page for those endowments that contained pertinent historical information. The endowments in question were those designated by the board where such designation as made was prior to the present system of adopting a separate resolution to document the designating of an endowment. To the credit of nonprofit A, the organization has taken the time to build a system, which provides easy access and traceability throughout related to the organization of documentation. This could not be said of nonprofits B and C, which had reams of documentation, where putting one's hands on pertinent documents might prove challenging.

Nonprofits B and C had more typical systems of what this researcher had expected at the outset of the study. These bifurcated or disjointed systems of filing documents and tracking endowments can lead to the loss of pertinent historical information creating the risk of misclassification and/or noncompliance with accounting pronouncements, laws and regulations, and donor or board intent. One must scan and file documents to ensure survival and ease of access. One should not have to sift through reams of documents to find those pertinent to determining restriction and/or classification.

Nonprofit C did absorb one merger and the endowments received are restricted as to principal but not earnings. Nonprofit C absorbed the funds received into the organization's main endowment fund and does not account for them separately. Nonprofit C has the documents relating to these endowments in files maintained by the entity. However, with the passage of time, turnover in staff, movement of documents, and new accountants managing the main endowment fund with these comingled amounts, their separate identity could be lost.

The present research was to be an accounting multiple-case study, involving the study and documentation of actual practices related to accounting for endowments. This study sought to provide generalizable findings or *analytic generalizations* as described by Yin (2014) as those going beyond the setting for the specific cases studied. This researcher believed this study met the objective of generalizability in that nonprofits B and C are more typical of the process of accounting for endowments. The systems work for those in charge of each respective nonprofit presently, but contain flaws as noted and could result in a loss of important data over time leading to the risk of noncompliance.

Overall, this researcher is pleased with the results of the study conducted and the best practices emanating therefrom. This researcher is also thankful for this study, as the results should provide some much-needed literature in the area of accounting for endowments. This researcher also hopes this study will result in future research in the area of endowment accountability.

Summary and Study Conclusions

The purpose of this qualitative research was a multiple-case study to explore the way certain affiliated Midwestern nonprofits control and document endowments. In addition, whether the nonprofits studied have maintained adequate documentation, to determine whether those studied are at risk of noncompliance with donor-imposed restrictions, board designations, laws and regulations, and applicable accounting pronouncements pertaining to the stewardship of a major source of funding and accountability to donors and other stakeholders.

The general problem explored was whether the nonprofits studied have properly implemented a system to track and maintain documentation of their endowment funds to avoid being at risk of noncompliance with laws, regulations, reporting requirements, and sound control practices. This research sought to specifically explore the way nonprofits document endowments, any related restrictions, and board designations to ensure good stewardship of a major source of funding and accountability to donors and other stakeholders, and whether they had maintained pertinent endowment documentation.

There are no known prior studies of this type. Additionally, the literature is scant as to the study of endowment funds in general. An objective of this study was to fill in a gap within the literature related to the understanding and effective practice of the way endowment funds are documented by nonprofit entities in complying with financial reporting requirements, donor-imposed restrictions, board designations through the multiple case study performed at each nonprofit site.

Based on the manner in which they manage and control their endowments through the systems they employ two of the three nonprofits studied could be at risk of noncompliance, now or in the future, based on the findings. Where systems are disjointed and scattered the risks increase that documents will be lost, or endowments will lose their identities resulting in mismanagement at best. While each entity studied was generally able to produce files of documentation regarding endowments on request, there exists a vast difference in the system put forth by nonprofit A over those in place by nonprofits B and C.

Nonprofits B and C would spend considerably more time proving the classification of their endowment funds due to system bifurcation or documentation being maintained in a number of locations, not linked, and in no certain order. Additionally, the files presented contain numerous documents, but there is no system to organize succinctly the essential, pertinent documents related to the specific endowments examined to substantiate classification in the financial statements or proper use. Nonprofits B and C are vulnerable should they encounter a turnover in staff where the present system is not user-friendly and easy to follow.

Nonprofit A maintains a straight-forward system beneficial in demonstrating the organization's compliance with accounting pronouncements, laws and regulations, and any donor restrictions or board designations in place via the entity's endowment register. The grid or spreadsheet employed by nonprofit A has proven useful for substantiating financial statement classifications and payouts. The grid and spreadsheet reduces the risks to the organization that it would be in noncompliance with donor-imposed restrictions, board designations, laws and regulations, and applicable accounting pronouncements pertaining to the stewardship of a major source of funding and accountability to donors and other stakeholders.

The findings from the nonprofits studied informed the set of best practices contained herein. Nonprofit A served as a model with its endowment register grid and system being the focal point in answering the research question as it pertains to nonprofit A. Nonprofit A has developed and adopted other best practices policies and procedures of its own for use with the endowment register and grid as noted herein.

The findings indicate nonprofits B and C have deficient systems. The deficiencies stem largely from the system employed in managing endowment documents as noted. The findings related to nonprofits B and C demonstrate the need for robust best practices related to endowment documentation and management systems.

Implementing best practices is one way to ensure continuous process improvement within an organization. A commitment to using best practices in any area ensures a greater degree of success. Success in accounting for endowments includes efficiently maintaining adequate documentation to minimize the risk of noncompliance with donor-imposed restrictions, board designations, laws and regulations, and applicable accounting pronouncements, being a good steward of a major source of funding, and accountable to donors and other stakeholders. The best practices guide developed from the findings serves to enhance nonprofit governance in this way.

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Appendix A: Interview Guide

The following questions have been designed to be used in a qualitative multiple case research study of nonprofit endowments, specifically as it relates to management controls over documenting restrictions and designations. The interview questions are designed to help answer the research question: How do affiliated Midwestern nonprofits control endowment funds through the management of documentation to ensure they are not at risk of noncompliance with donor-imposed restrictions or applicable accounting requirements over restrictions and designations? The final aim of the study is to produce a guide of best practices to be used by nonprofits in the management of endowment funds.

The interviewees will be purposefully sampled. They will be asked to participate and sign a consent form. Interviewees will be advised their participation is voluntary and that they can withdrawal at any time. Every effort will be taken to ethically maintain confidentiality.

Background, Education, and Training

- To help me understand, please describe your position or role within the organization. Please tell me more.
- Please tell me about your educational background.
- What duties or role do you have in accounting for and managing endowments? Please list.
- What specialized training does the organization provide to help you in managing and accounting for endowments?
- How does your organization stay on top of accounting pronouncements, laws and regulations, and other requirements pertaining to endowment accounting?

- Are you aware of and have you prepared for changes related to the requirements of FASB AU 2016-14?

Environment, Policies, Procedures, and Controls

- How would you describe the environment or attitude about accounting for endowments? Please elaborate.
- Do you have any internal experts who help with accounting issues, specifically accounting for endowments?
- Describe any outside professionals used in the endowment accounting process, such as those pertaining to accounting, auditing, financial statement preparation and presentation, and investment management.
- How does the organization mitigate risks to ensure endowments are properly used and accounted for?
- Is there a mechanism for reporting to donors in terms of accountability?
- What are the official policies and/or procedures of your organization used to manage and account for endowments? Are they formalized? Can I get a copy?
- What type of system does your organization use to document endowment gifts? Is this system manual? Is it computerized? Can I examine the endowment documentation?
- What type of accounting system is used by your organization to account for endowment gifts?
- How do you document endowment gifts for purposes of financial reporting and audit in terms of being traceable to financial reports and related disclosures?

- How many funds do you have on your books? How many are used to account for endowments?

Perceptions of the Present System

- What do you think works well in your system of accounting for endowments? Tell me more.
- What do you think is the most challenging aspect of accounting for endowments? Why?
- What could be done to improve upon the present system? Please elaborate.

Additional questions

- Is there anything we have missed that you think is important?
- Is there anything more you would like to add?

The foregoing questions are expected to provide useful information from which themes or perceptions can be developed for further analysis and gaining an understanding of the thing researched the system of managing endowments within the nonprofits selected. The information produced from face-to-face interviews will be analyzed in conjunction with the internal control questionnaire, documents inspected, and any casual observations by the researcher to triangulate the data collected with the intent of obtaining a sufficient level of saturation in answering the research question posed.

Appendix B: Endowment Management Best Practices Checklist

Balanced Scorecard			
	Include metrics for managing endowments related to the four dimensions:		
		a.	Financial – The investment policy should include external benchmarks to measure performance
		b.	Customer – Endowment management and gift use should be focused on accountability to donors
		c.	Internal process – Management should be committed to improving their system of endowment management to provide the best possible financial management and reporting
		d.	Innovation/learning and growth – Management should be committed to providing training in all areas of endowment management
Roles and responsibilities of the governing board			
	Review the current environment and attitude about endowment management		
	Consider risk management procedures to mitigate potential risks related to fraud, embezzlement, and misappropriation		
	Develop policies and procedures pertaining to the management of endowment funds		
		Policies and procedures should:	
		a.	Be consistent with the mission, vision, and values of organization
		b.	Promote transparency for the benefit of donors and other stakeholders
		c.	Ensure ethical standards are followed
		d.	Comply with all laws and regulations
		e.	Consider the impact of particular accounting standards
		Policies and procedures should be developed to cover:	
		a.	Internal control over endowments
		b.	Investments
		c.	Asset allocation and spending
		d.	Fundraising
		e.	Gift acceptance
		f.	Endowment document retention
		Policies and procedures should be properly adopted by the governing board	
		Policies and procedures should be monitored, reviewed, and revised as necessary	
	Consider the inclusion of those with endowment management expertise on the governing board		
	Provide for training and development of staff involved with the handling of endowment funds pertaining to laws, regulations, reporting, fundraising, reporting, accountability, and the like of:		
		a.	Board members
		b.	Paid professional staff
		c.	Volunteers (if involved with endowment funds)
	Assess qualification of staff and discuss the need for obtaining outside legal and accounting assistance where necessary		

Endowment Management Best Practices Checklist (continued)

Roles and responsibilities of the governing board (continued)			
	Assess need for external investment management and consider:		
		a.	Establishing a separate board committee to oversee external investment activities
		b.	Procedures for reviewing the activities of the external investment manager
		c.	Whether external investment activities are consistent with investment policy
	Provide for training of audit committee members pertaining to endowment financial reporting, audit, and legal requirements		
	Ensure there a confidential whistleblower provision is in place related to endowment management		
	Monitor the activities of the executive director related to endowment management and reporting		
Roles and responsibilities of executive director			
	a.	Carry out strategies, policies and procedures as adopted by governing board	
	b.	Ensure compliance with requirements related to endowments, especially those pertaining to :	
		i.	Ethical practices
		ii.	Laws and regulations
		iii.	Accounting standards
	c.	Supervise staff and volunteers in charge of endowment related activities	
	d.	Provide opportunities for training of paid staff and volunteers pertaining to endowment related activities	
	e.	Evaluate staff, policies, and procedures and make recommendations to board where necessary to improve endowment management with the goal of continuous improvement	
	f.	Work with governing board to ensure a confidential whistleblower procedure is in place	
Endowment document management system			
	a.	Develop a document retention and management policy to comply with SOX Act	
	b.	Adopt procedures to be followed when informing individuals of changes impacting the use of gifts, including the need to invoke the doctrine of *cy pres*	
	c.	Consider a secure system for managing donors and gifts including:	
		i.	Maintaining confidentiality of donor information
		ii.	Ensure tracking for the proper use of gifts
		iii.	Compile data to promote proper financial and tax reporting – including adherence to legal requirements and accounting standards
		iv.	Compile data in an auditable fashion

Endowment Management Best Practices Checklist (continued)

Endowment document management system (continued)			
	d.	All board designations of endowment funds are properly documented and linked with the endowment assets	
	e.	The donor agreement should provide for the clear designation of any donor restrictions, and provide for how funds will be invested and distributed	
	f.	System for tracking endowments is developed to allow for traceability:	
		i.	From the accounting system to the detailed endowment register
		ii.	From the audited financial reports and related disclosures to the accounting system
		iii.	From the Form 990 to the accounting records
	g.	Reports showing endowment revenues and net asset classifications are properly supported by the system in place to comply with applicable laws and accounting pronouncements	
	h.	The endowment management system should promote transparency	