Understanding the Differences Between

Advancement *Counting* and Finance *Accounting*

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Note: The following paper substantially incorporates material originally written by Jan H. Shimshock and edited by John Taylor in 1999 for a chapter in the CASE publication, "Advancement Services: Research and Technology Support for Fund Raising." At the time, Jan was the Executive Director of Development at Cranbrook Educational Community. I obtained permission to reuse portions of that chapter from both Jan and CASE.

The referenced CASE book was the first of three CASE Advancement Services publications created by me. A 4th edition is currently on hold until CASE resumes book publishing initiatives post-pandemic.

Jan's entry was titled, *Reconciling Advancement Services and Accounting: Five Principles to Help Explain the Relationship and End the Confusion*. Jan is now the Director of Development at The Detroit Institute for Children.

This paper reprints and modifies that original book chapter. While applicable at the time of its printing, I am updating some of the original references. However, the concepts and explanations remain as accurate today (2021) as they did twenty-two years ago. Finally, I include new text and information to ensure the paper remains a useful and timeless resource.

Leadership just released the performance report for last month's development activity. Gifts, grants, and memberships in your programs and related activities are up over the same period of a year ago. Pledges and pledge payments, as well as planned gifts and bequest expectancies, are showing strong upticks. Across the organization, members of the development team feel justifiably proud of their accomplishments and optimistic about the future.

But then the phone begins to ring, and the email starts to appear as they do most every month. Leadership volunteers and staff compare advancement services' recent gift reports with the Business Office's monthly summary. Board members are curious because your gift and grant totals do not match those on the financial statements. Business and finance personnel are concerned because they cannot find a number trail leading to or backing up the various donation "buckets" and giving totals. And frontline development colleagues are upset because their records indicate that their annual fundraising results are being under-reported.

What to do? How can you bridge this gap in knowledge and understanding of gift reporting? Suddenly, as the melody of an old song pops into your head, the answer becomes more

apparent: “You say potAto, I say potAHto. You say tomAto; I say tomAHto.”

The fact is advancement services and accounting personnel talk about the same things. But we often think and act quite differently. The two groups are like an international team of experts working jointly on a mutual benefit project without a translator’s benefit. Throw in the likelihood that your frontline fundraisers frequently have little or no working knowledge of *either* advancement services *or* accounting. The potential for confusion among all parties concerned becomes acute.

To prevent this from happening and maintain credibility in our constituents’ eyes (both internal and external), we must understand each department’s reason for being and each other’s language.

There is no substitute for the step-by-step guide, CASE Global Reporting Standards (Standards) when reconciling the overlapping activities of advancement services and accounting. While crafted primarily for higher education institutions, the publication applies equally to other nonprofit entities. Many years ago, proving that point, CASE adapted this publication for those other charitable organizations and published *Fund-Raising Standards for Annual Giving and Campaign Reports for Not-for-Profit Organizations other than Colleges, Universities, and Schools.*

CASE has since shifted its focus away from non-educational institutions. Yet, I often find copies of the latest CASE Standards on the bookshelves of numerous nonprofit organizations. There is no better reference book when it comes to counting and reporting fundraising performance.

I would be remiss if I did not acknowledge the existence of the old (2011) “Valuation Standards for Charitable Planned Gifts.” Originally published by the Partnership for Philanthropic Planning (now the National Association of Charitable Gift Planners), its purpose was to assist Planned Giving Officers in developing illustrations for prospective donors. However, some organizations continue to use those formulas for internal calculations.

As a side note, the Association of Healthcare Philanthropy has published a similar text, recently updated (2020). Their 2012 edition stated, “. . . this guide contains peer-established definitions and consistent rules for industry reporting.” Its counting methodology is much in-line with the CASE Standards.

The CASE Standards (now in its 1st “global” edition but essentially the fifth iteration since the 1st edition came out in 1982) include standards for reporting annual giving and multi-year campaign results. As a supplement to that publication, however, I offer the following hands-on principles to help you recognize and then minimize some critical differences between the world of advancement *counting* and finance *accounting*.

Principle No. 1: We Have Different Sources of Industry Standards.

As noted, Advancement’s primary authoritative source for counting standards is the Council

for Advancement and Support of Education (CASE). Early on, CASE worked in tandem with the National Association of College and University Business Officers (NACUBO) to periodically issue standards for reporting fundraising results. While no longer co-produced with NACUBO (also co-produced with the National Association for Independent Schools – NAIS – for a spell), the CASE Standards continue to honor NACUBO fundamentals. Neither NACUBO nor NAIS issue anything like the Standards relying, instead, on CASE to set the bar.

The stated purpose of these CASE Standards is to instruct institutions in compiling management reports of fundraising activity and speak the same language when comparing Advancement data with previous years and with other institutions. For example, many organizations nationally participate in the CASE annual Voluntary Support of Education (VSE) survey and the periodic CASE Survey of Cumulative Campaign Activity by Educational Institutions. Adhering to these Standards is strictly enforced for the VSE. With the campaign survey, CASE requires a description of any departures from the Standards.

On the accounting side of things, the big names are the Financial Accounting Standards Board (FASB), the Government Accounting Standards Board (GASB), and the American Institute of Certified Public Accountants (AICPA). All three organizations deal with the broader accounting world. But concerning nonprofit organizations, FASB, GASB, and AICPA set specific professional practice standards for accounting for gifts and pledges and presenting financial reports to organizational leadership. Notable in this regard are FASB FAS 116 and 117 issued in the mid- 1990s. These statements had a lasting effect on counting and accounting for pledges or promises to give.

Always in the background is the Internal Revenue Service (IRS). Their policies and decisions form the legal basis for the CASE Standards and gift substantiation requirements separate from gift reporting standards. If you are curious or interested, IRS Publication 1771describes those substantiation requirements. However, critical to the accounting world are IRS requirements for the annual filing of IRS Form 990, the "Return of Organizations Exempt from Income Tax." The nonprofit accounting world *must* follow IRS instructions for completing this form – including a line for reporting fundraising revenue.

Here is an interesting side note. Several years ago, the Center on Philanthropy at Indiana University (The Center) attempted to revisit the topic of the "cost to raise $1." Prior related efforts to establish a national standard were considered unsuccessful due to the respondents' lack of acceptance of standard definitions and methodology. The Center tried again, this time using the descriptions and numbers used for completing the 990. Undoubtedly, the nonprofit community consistently follows those standards, right? However, The Center did **not** find that to be the case. The Center could not rely on Form 990 submissions, as many nonprofit organizations interpreted the IRS requirements differently.

It seemed easy. The principal federal tax agency sets guidelines that appropriate professional associations then use to develop professional practice standards. If a tax guideline is a tax guideline and a gift is a gift according to the IRS, what could cause confusion between what development and accounting report to their constituents?

In a word: plenty! For example, as donations of professional services are not tax-deductible per the IRS (see IRS Publication 526), they are not countable per CASE. However, FASB *allows for the accounting of certain professional services and instructs organizations to reflect those contributions as assets on* the general ledger. Similarly, donations of "partial interest" (the use of something but not ownership) are not deductible per the IRS or countable per CASE. But FASB will recognize the savings on financial statements.

While the IRS does not get into the world of pledges (much), a bonafide pledge is a bonafide pledge and should count for Advancement the same as for Accounting. Right? Wrong. Accounting may start by counting the pledge. But then they will discount it based on the number of years before satisfaction. And then, they will set-aside a reserve requirement for uncollectable commitments.

Meanwhile, Advancement wholly counts the pledge forever and ever per CASE. Until that is, the commitment is paid or written-off. TomAto and tomAHto.

Principle No. 2: Advancement Services Supports both Advancement and Accounting – But for Different Reasons.

Ask any fundraisers—whether they focus on the annual fund, major gifts, planned gifts, a capital campaign, or grant seeking—what their No. 1 responsibility is. They will probably answer, "To raise money." Sure, other things, such as volunteer management and board development, may come into play. But these are merely a means to an end. The end is to exceed last year's gift total and meet this year's fundraising goal. Your colleagues are primarily concerned with their program's average gift amount, return on investment, cost to raise a dollar, year-to-date comparisons, and participation rates by segment. They focus on gifts to their program within the institution.

Ask members of your accounting department why they are around, and they are likely to respond, "To provide information that management can use to plan and control the budget as well as make strategic financial decisions." Sure, there are many varied functions within the accounting area, such as purchasing, accounts receivable, and accounts payable, all of which may be broken down by cost center, department, or division. But information resulting from all these day-to-day activities is ultimately used by senior management and your auditors—to make statements and decisions about your institution's overall financial health.

What is the role of advancement services in all this? Common sense dictates that it is to provide valid and reliable financial information to both fundraisers and accounting staff so they can each perform **their** roles. Serving both worlds can be tricky given the differing standards that Advancement and accounting employ to classify gift-related financial data.

An advancement office's approach to serving both worlds is by reporting their ongoing fundraising performance in two different but simultaneously published reports. While various organizations title these two reports differently, their purposes remain the same. I describe my preferred titles below. It should go without saying, but I will say it regardless, Advancement does **not** intend to usurp whatever official financial statements the accounting

office promulgates. Those reports highly likely reflect fundraising numbers differently for *their* purposes. However, given different reporting authorities, it is perfectly acceptable for these various reports to disagree. What is essential is understanding the differences and diverse audiences and be able to explain the differences.

The two critical advancement reports used to depict fundraising productivity are:

- **Gifts & New Commitments:** This report demonstrates new activity generated by the advancement office, including outright gifts, pledges, bequest expectancies, and irrevocable planned gifts. The latter are often reported at face value in this report, although not at all institutions. This report *excludes* all payments on prior or current period pledges and bequest expectancies.

- **Gift Receipts:** This report reflects all "cash in the door" during the period defined. As such, this report *includes* payments on pledges and realized bequests and new outright gifts, including irrevocable planned gifts. You count the latter at the IRS discounted, or tax-deductible, value. This report excludes new pledges and bequest expectancies. For higher education institutions, this report mirrors VSE reported totals.

These two reports can include some of the same gifts. But they are used to gauge performance in different ways. Therefore, it is acceptable for a pledge to count in the first report and its payments count in the second report. That is not double counting. That merely is tallying differently for different purposes.

Principle No. 3: We Look for Different Things and Have Different Priorities.

The advancement services *service* most intricately linked to the accounting function is the processing of gifts and pledges. Here, contributions received and commitments promised are credited to donor records. As donations come in, members of the advancement services team modify donor names, addresses, and marital status. Then they credit the gifts to the appropriate fundraising program and send them to the accounting department to deposit.

Sometimes advancement services handle the deposit through remote deposit capture (RDC) but must supply details of the deposit to the accounting team. Further, through an automated accounting feed, the donor gift or commitment goes into the appropriate fund or account, depending on the donor's intent. The gift processing staff also collects and enters into the donor's record other information necessary for stewardship and ongoing communication with the donor. Data entered includes the gift source (individual, corporation, or foundation, including "recognition" or "soft" credit vs. "legal" credit); whether it is a pledge payment; the date the gift came in; and its cause (that is, which mail or phone solicitation spurred it).

Advancement uses this information to generate tax receipts for donors and compile reports that fellow advancement staff analyzes to monitor success, implement strategic program changes during the current year, and plan programs for the following year. Although the variables are many, and the analysis is complicated, they must plan and implement an effective fundraising program.

Members of the business and accounting staff indeed provide data for effective budgetary planning. But they usually do not care much about the "additional" information that gift processing collects. Business and accounting offices are mostly concerned with gifts as revenue. They also care equally about expense offsets. The term "bottom line" is very appropriate here, as most accounting reports have a single "new gifts" or "gift income" entry that lists the sum of all gifts deposited into a particular fund or account.

In many ways, recognizing this difference in perspective helps explain the blank stare you get when your business manager says that year-to-date gifts are down. You respond, "Yes, but individual and membership participation are both up 25 percent!"

These different priorities are explained further in a May 2006 Blackbaud newsletter article (Nonprofit Fiscal Fitness) quoted below:

- **Finance and development have different fundamental objectives:** Finance ensures that donated funds are accounted for and protected, as well as recognizes the restrictions associated with each; development focuses on securing donations or funds.

- **Finance and development serve different constituencies:** Finance tracks detailed information for auditors, board members, and other key stakeholders; development cultivates relationships with donors.

- **Finance and development have differing views of certain assets and valuation**: Finance will discount a pledge, whereas development goes on the face value.

Principle No. 4: We Talk About the Same Things but View Them Differently.

One of the intriguing things about listening to the Advancement and accounting personnel talk about each other's data is how frequently we use identical terms in obviously different ways. Many of these discussions center on the concepts of restricted, unrestricted, annual giving, and annual funds.

It is useful to see examples of this at work. Here are instructions as supplied by CASE in the annual giving section of CASE Reporting Standards and Management Guidelines [2009] (these definitions are consistent with original terms identified by CASE as far back as 1982):

"Unrestricted: Report the total outright gifts, including realized bequests (estate settlements), given by donors without any restriction. In cases where the donor expresses a preference for the gift's use but leaves the decision to the institution, report the gift as unrestricted. Even if the institution subsequently designates the gift for a particular purpose, the fact that the donor did not restrict its use means we regard the donation as unrestricted. In many institutions, this category houses "annual fund" accounts. For purposes of this report, report matching gifts

from organizations as unrestricted unless the organization states otherwise.

“(Note: For fundraising purposes, the term *unrestricted* has a different meaning from that used for accounting purposes. In fundraising, *unrestricted* means “unspecified” or “undesignated.”

“Restricted: This term identifies gifts for current operations that the donor restricts for a specific purpose.”

Pretty straightforward, right? Now consider the original FASB definitions as paraphrased from the Statement of Financial Accounting Standards No. 116 published in 1993:

Unrestricted support: Revenues or gains from contributions that are not restricted by donors.

Restricted support: Donor-restricted revenues or gains from contributions that increase either temporarily restricted net assets or permanently restricted net assets.

So CASE, and FASB, have been singing from different sheet music to different audiences for decades.

But FASB changed everything for the accounting world in 2017 when they activated new recommendations outlined in Update 2016-14 (Topic 958). Gone is any reference to “unrestricted.” The National Council of Nonprofits summarized the 2016 changes and new definitions this way:

“The new FASB standards changed the terminology we use to describe “restricted” contributions. Going forward there are two categories: assets “without donor restriction” and assets “with donor restriction.” As we know, the ability for donors to place restrictions on the purposes - or on the time period - their donation can be used, is what makes nonprofit accounting unique – and complicated.”

And,

“No matter what kind of restriction a donor might impose, FASB standards require nonprofits to report finances in a way that makes it clear which funds have donor restrictions and which funds come without donor restrictions. Before these new FASB standards, there were three categories: “unrestricted,” “temporarily restricted,” and “permanently restricted.” The new terminology moves us from three categories to two categories when displaying financial statements.”

Taken together, what does it all mean? Well, for starters, it means that for as long as most of us can remember, fundraisers and accountants have classified gifts differently. It also means that fundraisers report their performance to one authority, CASE, and accounting folk report according to another, FASB (or GASB). And from an accounting perspective, at least for the time being, there is no such thing as “unrestricted,” a term near and dear to fundraisers focusing on raising money for their annual fund.

It is crucial to acknowledge further the desires of many donors to restrict their gifts permanently. While for accounting purposes, those are still gifts "with donor restrictions," both accounting and advancement offices will need to report on these endowment gifts separately. The topic of endowment reporting brings us to another area where we may view things differently. Often, institutions will prefer to track endowment gifts in three categories: permanent, quasi, and term.
Advancement offices generally look at all endowment gifts in a single category where accounting offices need to monitor and track all three of these endowment types.

Principle No. 5: We Can Use our Differences to Learn from Each Other.

Long have we heard discussions centered on defining "annual giving" and "annual fund." From what I have seen posted on listservs and shared by various nonprofit organizations, organizations establish these definitions roughly as follows:

Annual Giving:

1) As defined by the individual institution, the yearly act of providing either a restricted or unrestricted gift to the institution, usually in response to an organized appeal, or

2) As a synonym for the annual fund.

The latter of these definitions is increasingly rare. However, when institutions make a shift from an annual **fund** program to annual **giving**, it is usual, if not expected, that a priority for the department continues to be the unrestricted annual fund(s) (see below).

Annual Fund:

An annually occurring fundraising program, seeking and resulting in unrestricted gifts to the organization for current-year operations.

Each year, annual fund officers worldwide suffer panic attacks as donors respond to appeals with gifts considered restricted in development circles. They debate the wisdom of giving donors the option to designate their contributions because of the pressure that results when "unrestricted" numbers are down (although, as described above, they may have increased on the accounting side).

Your colleagues and perhaps their senior administrators fail to realize that their preoccupation with restricted and unrestricted is likely misguided. The institution's accounting office reports have a more inclusive approach (as determined by FASB et al.) to evaluate current-year operations support. CASE's annual VSE survey also mirrors this approach. The CASE Standards establish the rules for that survey.

As part of comparing institutions' giving programs, both restricted and unrestricted gifts appear under the "Support for Current Operations" category in the VSE survey. As such, restricted donations are just as crucial as unrestricted in that both feed into that all-important operating support.

Recognizing this could help relieve pressure on annual fund staff. The focus shifts from exclusively unrestricted annual fund gifts to an annual giving program with broader appeal seeking restricted and unrestricted support.

Conclusion

While development and accounting have a close relationship due to our overlapping involvement with contributions, the relationship can remain healthy only if we encourage ongoing communication. There are many more examples in which the development and accounting functions converge and diverge, including our respective approaches to reporting capital gifts, contributed services, and planned gifts (revocable and irrevocable).

If we are to continue working together to benefit the entire organization, we need to continue understanding and respecting each other and our roles. Perhaps even more important, we need to understand the "language" we use when "you say potAto, I say potAHto" and "you say tomAto, I say tomAHto." The last thing we want to do is call the whole relationship off.