Reconciling Advancement Services and Accounting: Five Principles to Help Explain the Relationship and End the Confusion. Jan H. Shimshock, Executive Director, Development, Cranbrook Educational Community

The data report for last month's development activity has just been released. Gifts, grants, and membership in your alumni association and museum are up over the same period of a year ago, with pledges and pledge payments following suit. Across campus, members of the development staff feel justifiably proud of their accomplishments and optimistic about the future.

But then the phone begins to ring and the e-mail starts to appear—as they do every month. Key volunteers and staff are comparing advancement services' recent gift report with the monthly report issued by the accounting department. Board members are curious because your gift and grant totals don’t match those on the financial reports. Business and finance staffs are concerned because they can't find a number trail leading to the restricted and unrestricted giving totals. And front-line development colleagues are upset because their records indicate that their annual giving results are being under-reported.

Is advancement services deliberately trying to mislead, or are you and your staff merely inept?

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 clearer: "You say potAto, I say potAHto. You say tomAto, I say tomAHto."

The fact is, development services and accounting folks 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 project of mutual benefit. Such projects always have the potential to become an experience straight out of the story of the Tower of Babel. Throw in the fact that your frontline fund raisers frequently have little or no working knowledge of either advancement services or accounting, and the potential for confusion among all parties concerned becomes acute.

To prevent this from happening, and to maintain credibility in the eyes of our constituents (both internal and external), it's important to understand each department's reason for being as well as each other's language. When it comes to reconciling the overlapping activities of advancement services and accounting, there's no substitute for the step-by-step guide, CASE Management Reporting Standards, which includes standards for reporting both annual giving and campaign results. As a supplement, however, I offer the following hands-on principles to help you recognize, and then minimize, some key differences between our worlds.

PRINCIPLE NO. 1: WE HAVE DIFFERENT SOURCES OF INDUSTRY STANDARDS.

Development's primary source is the publisher of the book you're reading now, the Council for Advancement and Support of Education. Working with the National Association of College and University Business Officers, CASE periodically issues standards for reporting fund-raising results. The stated purpose of these standards is to guide institutions in compiling management reports of fund-raising activity and to help them speak the same language when they compare development data with previous years and other institutions (for example, through the Council for Aid to Education's annual Voluntary Support of Education survey and the CASE Survey of Cumulative Campaign Activity by Educational Institutions).

On the accounting side of things, the big names are the Financial Accounting Standards Board and the American Institute of Certified Public Accountants. Both organizations deal with the broader accounting world, but with respect to nonprofits, FASB and AICPA set special standards of professional practice for accounting for gifts and presenting financial reports.

Always in the background is the Internal Revenue Service, whose policies and decisions form the legal basis for CASE and FASB guidelines (as well as for gift substantiation requirements that are separate from gift reporting standards).

It all seems so simple, doesn't it? The main federal tax agency sets guidelines, which appropriate professional associations then use to develop standards of professional practice. If a tax guideline is a tax guideline and a gift is a gift according to the IRS, what could possibly cause confusion between what development and accounting report to their constituents?

In a word: plenty!

PRINCIPLE NO. 2: ADVANCEMENT SERVICES SUPPORTS BOTH DEVELOPMENT AND ACCOUNTING (BUT FOR DIFFERENT REASONS).

Ask any fund raisers—whether they're assigned to the annual fund, major gifts, planned gifts, a capital campaign, or grant seeking—what their No. 1 responsibility is, and 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 being to exceed last year's gift total and meet this year's goal. Your colleagues are primarily concerned with their program's average gift amount, year-to-date comparisons, participation rates by segment, etc. They focus on gifts to their particular program within the institution.

Ask members of your accounting department why they’re around and they're 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 a number of varied functions within the accounting area, such as purchasing, accounts receivable, and accounts payable, all of which may be broken down by school, college, or division. But the information resulting from all of these day-to-day activities is ultimately used by senior management—as well as 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's to provide valid and reliable financial information to both fund raisers and accounting staff so they can each perform their roles. The problem is, serving both worlds can be tricky given the differing standards development and accounting use to classify gift-related financial data.

PRINCIPLE NO. 3: WE LOOK FOR DIFFERENT THINGS AND HAVE DIFFERENT PRIORITIES.

The advancement service most closely linked to the accounting function is gift processing, in which contributions received are credited to donor records. As contributions come in, members of the advancement services staff update donor names, addresses, and marital status. Then they credit the gifts to the appropriate fund-raising program and send them to accounting to deposit in the appropriate fund or account, depending on the donor's purpose. The gift-processing staff also collects and enters into the donor's record other information, such as the gift source (individual, corporation, foundation, etc., including "recognition credit" vs. "legal credit"); whether it is a pledge payment; the date the gift came in; and its cause (that is, which mailing or phone solicitation spurred it).

Development uses this information to generate tax receipts for donors and to compile reports that fellow advancement staff analyze 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 complex, they're essential in order to plan and implement an effective fund-raising program.

It's true that members of the business and accounting staff provide data for effective budgetary planning. But they could not care less about much of the information that gift processing collects. Business and accounting are mostly concerned with gifts as revenue and how expenses are offset as a result. The term "bottom line" is very appropriate here, as most accounting reports have a single gifts entry that lists the sum total of all gifts deposited into a particular fund or account. In many ways, recognizing this difference in perspective helps to explain the blank stare you get when your business manager says year-to-date gifts are down and you respond, "Yes, but parent and alumni participation are both up 25 percent!"

PRINCIPLE NO. 4: WE TALK ABOUT THE SAME THINGS BUT VIEW THEM DIFFERETLY.

One of the intriguing things about listening to development and accounting folks 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 fund.

It's useful to see examples of this at work. Here are instructions as supplied by CASE in the annual giving section of CASE Management Reporting Standards [1996]:

"Unrestricted: Report the total outright gifts, including realized bequests, given by donors without any restriction, regardless of any subsequent designation by the institution to be used for current operations, to function as endowment, to construct facilities, or for other purposes. 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.

"Restricted: Report the total outright gifts to current operations that have been restricted by the donor for academic divisions, athletics, faculty and staff compensation, research, public service and extension, library, operation and maintenance of physical plant, student financial aid, and (all) other restricted purposes."

Pretty clear, right? Now consider the FASB definitions as paraphrased from the Statement of Financial Accounting Standards No. 116:

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.

However, the FASB guideline additionally states: "Contributions with donor-imposed restrictions shall be reported as restricted support; however, donor-restricted contributions whose restrictions are met in the same reporting period may be reported as unrestricted support provided that an organization reports consistently from period to period and discloses its accounting policy"

Taken together, what does it all mean? Well, it would appear that both accounting and development share common definitions of both unrestricted and restricted, but that accounting has the flexibility to deposit and report a restricted gift as unrestricted if the donor's restriction is met during the fiscal year in which it was given.

For example, assume that your institution received several gifts for your athletic program. Following CASE standards, these gifts would be classified as restricted. On the accounting reports, however, these same gifts could be classified as unrestricted if it's deemed that they will be entirely spent according to their donor-intended purpose during the fiscal year in which they were given.

The downside to all this is the potential for reporting discrepancies between development and accounting—a potential that becomes even greater as the difference in reporting restricted gifts is multiplied across the many restricted donor purposes the CASE standards track (i.e., academic divisions, athletics, faculty and staff compensation, research, public service and extension, library, operation and maintenance of physical plant, student financial aid, and (all) other restricted purposes). The upside, however, is that both the accounting standards and the CASE standards report total gifts to current year operations, not just unrestricted or restricted gifts, which should help the many development offices responsible for the annual giving.

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've seen posted on listservs and shared by various nonprofit organizations, these definitions can be roughly worded as follows:

Annual giving: (a) 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 (b) as a synonym for annual fund.

Annual fund: An annually occurring fund-raising program seeking and resulting in unrestricted gifts to the organization for current-year operations.

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

What your colleagues—and perhaps their senior administrators fail to realize is that their preoccupation with restricted and unrestricted is misguided in light of the institution's accounting office reports that have a more inclusive approach (as determined by FASB et al.) to evaluating support for current-year operations. This approach is also mirrored by CAE's annual VSE survey, which is based on the CASE Management Reporting Standards and sponsored by CASE and the National Association of Independent Schools.

The VSE survey's taxonomy is based on the reporting standards that CASE has set. As part of comparing institutions' giving programs, both restricted and unrestricted gifts appear under the “Support for Current Operations" category. As such, restricted gifts are just as important as unrestricted in that both feed into that all-important operating support.

Recognizing this could help relieve pressure on annual fund staff as the focus shifts from annual fund gifts that are exclusively unrestricted to an annual giving program with broader appeal that seeks both restricted and unrestricted support.

While development and accounting have an obvious relationship by virtue of 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, planned gifts, and more. If we are to continue working together for the benefit of our greater organization, we need to continue to strive to understand and respect 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.

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