THE PHOENIX PHILANTHROPY GROUP

Fundraising vs. Finance: Change the Dynamics to Build Organizational Strength

BY RICHARD TOLLEFSON

Friction between a nonprofit's fundraising and finance teams is not uncommon, but it can lead to division within the organization and confusion in the boardroom. The conflict typically stems from differences in performance measurement, reporting standards and business terminology. If relationships and communication are not soothed, goals become compromised, performance is questioned and reputations can be damaged. Reconciliation and synergy between these disconnected departments will lead to a stronger organization, enhanced philanthropy and greater overall community impact.

Build Synergy with Understanding

As in any healthy relationship, communication is key. In this situation, it's critical the two departments "speak the same language," says Sherri Mylott, University of La Verne's (ULV) vice president of University Advancement. "For example, when we talk about return on investment, we're not just talking about gifts closed and money in the bank. At ULV, we talk about how the work we do does not always result in an immediate 'yes' that brings resources to the institution right away. We're talking about relationships and financial support that may be realized or optimized over many years."

As fundraisers, we can't control when a donor makes a gift, how that gift will be made, and the final dollar amount. What we can influence most is relationship building, which will ultimately benefit the institution and our donors. It is the long-term approach to optimizing relationships versus a short-term need for case in hand that can be misunderstood or, seemingly, misaligned.

Often this and similar conflicts can be overcome by understanding the 'why' behind a request for information, explains Colette Kamps, CPA and partner at Henry + Horne. "If accounting can explain why it needs certain information and why it's needed at a certain time, that relationship can be much more successful.

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"Where I've seen this work effectively is when both teams come together to provide weekly or monthly cash flow projections," says Kamps. "Both departments understand why that's important and have the information needed to put those projections together. It's a great opportunity for a weekly or monthly collaborative conversation that can go a long way in building synergy between the two groups."

Bridge the Gap

Accounting takes a black-and-white approach, whereas development dabbles in the gray.

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Following strict Financial Accounting Standards Board (FASB) and Generally Accepted Accounting Principles (GAAP) requirements is critical for accountants. Managing donor funds is a highly regulated practice, and the finance department is ultimately responsible for ensuring the organization is following the requirements and receives a clean report from auditors.

> "This is why the finance department can seem rigid and inflexible, but ultimately it's for the good of the organization," says Kamps. "At the same time, there is opportunity for flexibility. Organizations can include any additional information they would like in their audited financial statement footnotes. They can expand on their performance, describe successes and share any information they think is important or attractive to donors."

Fundraisers often follow a different set of standards and guidelines. For example, ULV adheres to guidelines set forth by the Council for Advancement and Support of Education (CASE). These standards and guidelines do allow more flexibility than accounting standards. "There can be gray areas, and sometimes advancement works more in the gray while finance works in black and white," says Mylott. "That's where communication can fall apart." Building relationships, establishing direct lines of communication and creating ground rules will help bridge the gap between black and white, and gray areas.

Develop and Adhere to a Performance Reporting "Playbook"

For fundraisers and development departments, reporting true fundraising performance to an organization's CEO and Board of Directors is more than just reporting unrestricted cash. But for many nonprofits, unrestricted cash is king and this misalignment causes confusion that ultimately reflects poorly on the fundraising teams.

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Overcoming these obstacles between reporting unrestricted cash versus restricted cash takes thoughtful planning and well-documented policies that meet the expectations and requirements from both sides of the table.

Beyond just cash, there are other factors to consider. Development and accounting can often reconcile their differences in reporting if they use two different ways of calculating contributed revenue:

1. **Total commitments** – an industry standard for measuring performance, cost of raising funds and more. Total commitments consist of new outright gifts, pledges, gifts in kind and planned gifts, all of which are calculated at both net present value (for accounting purposes) and face value (for donor recognition purposes).
2. **Total cash** – consists of new outright gifts, payment on previously booked pledges and the realization of planned gifts.

The Phoenix Philanthropy Group strongly recommends organizations develop gift acceptance policies and a performance reporting playbook in collaboration with development, finance, executive management and the board. That playbook should be reviewed and approved every two to four years and live on the organization's website so major donors know how their gifts will be managed according to the organization's stated policies.

While this playbook can help lessen misunderstanding and alleviate confusion, questions or challenges can still exist for which consistent communications are needed, according to Mylott. This is particularly important in how the organization counts pledges.

She points to an example at her institution where a donor is making a pledge over five years for a capital project, but the institution needs those funds in hand before starting construction on a new building. The development and accounting teams both count the pledge in the year it is received, but those on the accounting side want to know when they'll have cash to spend. Reconciliation between performance and cash flow is important. "How those pledges are being counted and reported from the development side to the accounting side will be different," says Mylott. "This requires a conversation. But ultimately, we have to come together to meet our missions and support our students."

Other options to bridge the gap between reporting unrestricted and restricted funds are:

> Format reports provided to the CEO and board to visually show unrestricted donations, restricted donations and totals to provide a complete snapshot of the total fundraising performance.

> Include a simple reconciliation notation at the bottom of the income statement that explains the differences.

> Create budget-to-actual financial statements to present the information in a way that makes the most sense to the organization's management. Since these reports are not audited, organizations can take liberties in how they outline the information. But any differences to GAAP should be communicated and documented in that report.

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Key Takeaways to Get this Critical Relationship on Track

1 STOP MAKING EXCUSES. TAKE A PROACTIVE APPROACH TO FORECASTING REVENUE PROJECTIONS.

Like any other revenue-generating department of an organization, the fundraising group must stay on top of its cash flow and total commitment projections. Providing weekly or monthly projections encourages the advancement team and the finance team to work together, which ultimately improves communication and builds understanding and synergy between the two departments. In addition, the development team will benefit from more constant analysis of the stage a funding request is in and how a relationship is being advanced.

2 ESTABLISH GIFT ACCEPTANCE POLICIES

Having gift acceptance policies that are reviewed and approved every few years help maintain consistency in how performance is measured and how gifts are reported and counted in the overall campaign success and allow organizations to say 'no' to certain donations that can put an organization at risk.

3 SHOW A PATH TOWARD ALIGNMENT IN FINANCIAL STATEMENTS

While reporting requirements vary between the development group and the accounting teams, it's important to explain these differences with governance during reviews of financial statements. For other unaudited reporting presented to the CEO and board, there is additional flexibility to show restricted funds, unrestricted funds and overall totals, as long as any differences to GAAP are documented in the report. Reporting both total cash and commitments will ease problems.

4 ESTABLISH RULES OF ENGAGEMENT TO CREATE SYNERGY

Regular communication is key to reversing a divisive relationship between fundraising and finance. It's important that the two groups a) speak the same language to understand the terminology between the departments and b) clearly explain why information and reporting performance are being requested in a specific way. Understanding will go a long way in creating harmony in the organization.

When there is synergy, shared understanding, common goals and mutual respect between fundraising and accounting, performance is enhanced. Common performance expectations can be determined and measured, relationships with and accountability to donors are strengthened and the understanding of key decision-makers is enhanced. These all work together to make a stronger organization and greater overall community impact.

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