

***Stewardship for Mission:
Where Development
and Finance Meet***

Sponsored by:

*National Association for Treasurers of Religious Institutes
8824 Cameron Street
Silver Spring, MD 20910
(301) 587-7776
www.natri.org*

*National Catholic Development Conference
86 Front Street
Hempstead, NY 11550
(516) 481-6000
www.ncdcusa.org*

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Introduction

The purpose of this joint project of the National Association for Treasurers of Religious Institutes (NATRI) and the National Catholic Development Conference (NCDC) is to provide consistency of information between finance and development offices and assist each to function effectively. It also provides input and education about the development process to both finance officers and development directors.

Although finance and development are two separate offices, they have a common mission; that mission is to proclaim the Gospel of Jesus Christ through the lens of the particular institute.

Leadership in a religious institute is elected for one purpose only and that is to lead the membership in responding to the mission of the Gospel. The primary stewardship responsibility of the leadership of an institute is MISSION.

Mission is proclaimed through the witness of the members' lives and is realized in the transformative ministries of the institute. Mission is experienced in the witness of community lived in the context of the evangelical counsels and is supported by careful attention to the material possessions of the congregation.

Leadership chooses individuals to assist in the administration of its responsibility as stewards of the congregation's mission. Thus congregations have offices for ministry, on-going formation, vocations, retirement, communication, finance and development. All of these offices are about one purpose: proclaiming the mission, inviting others to participate in it, and thus transforming others' lives through the Gospel.

This manual will facilitate collaborative efforts between two offices - finance and development as they manage the day-to-day responsibilities entrusted to them by leadership. These offices have many and varied responsibilities in sharing the mission of the institute. For the purpose of this manual only those responsibilities that the two offices share in the area of the ministry of fundraising will be addressed.

The charism and mission of each religious institute is a gift of the Holy Spirit, not given to their founders for themselves and their members, but rather to be shared with the larger community. This ministry of fundraising exists to proclaim the mission of the institute and to invite others to participate in that mission. Through the fundraising arm of development, a donor's life can be transformed by engagement in the mission of the institute. The institute is empowered to continue its mission in the name of the Gospel. In addition, the institute is transformed by its relationship with those whom it has invited to participate in that mission.

A key aspect of fundraising is accountability. Our institutes have the responsibility to manage their resources in such a way that communication is encouraged, productivity is enhanced, personal growth is stimulated and institutional goals are accomplished.

As others are invited to invest in an institute's mission by way of fundraising, they must be included in ways that empower and involve them most effectively.

Public demands for accountability and professionalism are key expectations to which both finance officers and development directors need

to be attentive. Today's donors require more information, more accountability, and better stewardship of their donations. To meet the needs of the public, there must be an adherence to standards, ethics, and sound management practices for the sake of the mission. Therefore, it is more critical today than ever before that finance and development offices work together.

This manual was written to assist finance and development officers of religious institutes of women and men. Terms specific to each religious institute may need to be substituted for terms used in the writing of this manual in order to enhance

clarity. That same substitution of terms makes the application of materials presented in this manual valuable to other not-for-profit organizations as well.

The great poet William Butler Yeats once said that "education is not the filling of a pail, but the lighting of a fire." It is our hope that the pages that follow will give the information needed by both finance and development offices to spark the fire to continue the mission of Jesus Christ through the ministry of fundraising. Both finance and development offices are key components to this ministry.

We gratefully acknowledge the many writers who contributed to this manual. We are also deeply appreciative to the Conrad N. Hilton Fund for Sisters for a grant which underwrote distribution of the manual to religious institutes and to the Missionary Oblates of Mary Immaculate (Belleville, IL) for their assistance with printing. This manual is reflective of committed collaboration between development and finance personnel. Included in the committee are:

NATRI

Carole Nugent
Laura Reicks RSM
Keith Zekind

NCDC

Jim Bok OFM
Madeline Franze SSJ
Georgette Lehmoth OSF

Editor

Mary McFadden SSJ

Chapter I

Theology of Fundraising

Most Rev. Thomas J. Murphy

Introduction

Human action must have meaning and purpose if it is to be significant. Such meaning and purpose comes not only from the value of such action in secular or human terms, but also from the relationship it has to who we are and what we are about as disciples of Jesus and as members of the Roman Catholic faith community.

Who we are and what we do as fund raisers and stewards of the resources we possess challenge us to see these tasks as more than mere mechanical exercises of human labor necessary for the Church to be incarnate in the world. Rather, hopefully, the ministry we share in fundraising and stewardship is a response to the Lord's great commandment of love: Love the Lord your God with your whole mind, your whole strength, your whole heart and your whole soul, and love your neighbor as yourself. (Mk. 12: 30-31) In pursuit of love, Christ challenged his hearers to a relationship with God that is expressed in loving service of others. We are considering here the basic moral principle of our faith tradition—the need for love to come alive.

Human and Christian Service

Humanitarian motives are the basis today for the service and care of others in countless ways. Appeals are made in the name of education, hunger, poverty and diverse forms of charity whereby people volunteer their time, talent and resources. There are thousands and thousands of people who benefit each day from this genuine human generosity and concern for others.

However, as baptized sons and daughters of God, we are also asked to minister to the needs of

others. Such ministry is not mere humanism, but it should rather come from a relationship we have to God and others through baptism. The faith we share and express offers hopefully a new motivation and a deeper understanding of our service of others whereby we should appreciate better who we are and what we do as a consequence of our faith commitment. The question must be asked immediately. Do we make a difference in our service to others because of our relationship to the Lord?

The Church as the continuing presence of Jesus exists in time and space. Its mission is to continue the ministry of Jesus. The Church does this in measurable and visible ways in different cultural, historical and social settings. Education, care for the aged, sick and infirm, help for the widow and orphan have all been part of the Church's mission from the beginning of the Christian community. These ministries were more than the human response to human needs, but rather the fulfillment of the command to love one's neighbor. These ministries are but a normal response to and an integral part of the mission of religion and they become an essential apostolate of the Church. They involve not only buildings, institutions and services, but also the powerful visible commitment of people who give their lives in service to others through works of charity in the name of Jesus.

However, the Church does not exist in a vacuum. It exists in a world where there are material needs and financial demands. For centuries, the followers of Jesus have fulfilled the corporal works of mercy by their generous response to the service of others in the establishment and maintenance of hospitals, schools, orphanages, homes for the aged, and

countless programs and services which continue the ministry of Jesus.

In order to serve others today, there is an even greater need than ever to develop resources, to generate funds, to provide services, if we are to continue to do what we have done in the past, let alone expand the ministry of service to an ever-increasing number of people in need. Escalating costs, inflation, new demands and new challenges are rapidly consuming the resources we possess. Consequently, fundraising to increase our resources and to develop new sources of support is an important vocation in the Christian community. This vocation needs to be recognized, acknowledged and appreciated. But it also must be seen and exercised within the mission of the Church in a spirit of accountability and responsibility.

Towards a Theology of Fundraising

A theological reflection on the ministry of fundraising in continuing and increasing our response to Christ's command of service to others is well worth considering. Some might say that such reflection is merely an attempt to justify what already exists, a post-script to an "a priori" situation. Others might consider such reflections equivalent to educational endeavors to have "Catholic" arithmetic or "Catholic" geography by placing these subjects under the umbrella of religious wording. Still others would see any attempt to offer a theology of fundraising as an exercise in semantics.

Yet, I believe theological reflection on fundraising within the Christian community needs to be done. This effort would hopefully place our efforts within a Gospel framework, within the mission of the Church which continues the ministry of Jesus.

By its very nature, theology is a reflection on the mystery of God's presence within the human condition and parameters of time and space. We come in contact with this mystery through the Word of God, the Person of Jesus, tradition, and

the lived experience of Church. These sources challenge us to see fundraising in the light of stewardship, the virtues of justice and charity, and the ongoing mission of the Church. Theological reflection forces us to ask the bottom line question: does what we do and who we are as fund raisers reflect the mystery of God's presence?

Stewardship

Stewardship as an ideal and a reality is part of consciousness today. From so many points of view, the human race is becoming far more aware of its obligation to be a steward of creation. Our interdependence as a planet and as a universe becomes more evident with every new space endeavor. The depletion of natural resources such as oil and water helps us recognize that there is a need to manage these precious gifts. Ecology is a clarion call to countless people to preserve creation in the face of technological and scientific demands.

The very first commandment God shared with the human race was to assume the responsibility of and care for creation. After the marvelous and magnificent sequence of events which led to the creation of the human person, God told the first humans to increase and multiply. But following that invitation came a command: "Let them have dominion over the fish of the sea, the birds of the air, and the cattle and over all the wild animals and all the creatures that crawl on the ground." (Genesis 1:26)

The heart of stewardship is offered in this first command given to the human race. The dominion and rule of all living things involves a care for and a respect of creation. This would demand a service of administration and management, but always in the best sense of the word. Human beings were asked to be "caretakers" of creation. As they were asked, so are we.

Legal documents might well give juridic ownership of land and possessions to human beings, but all

creation is under the sovereignty of God and must redound to the glory of God. What any human being “owns” is really possessions of God held in trust. We are trustees of what literally belongs to God. This view of human ownership puts all our possessions in a different light and offers a unique religious perspective and challenge.

What we possess and hold in trust is shared with us to fulfill our own needs, but also for the service of others. What we possess for our own necessity and even for what we might call “the good life,” is but a symbol and proof of the far greater gifts which God shares with the human race in the spiritual life. In a world today filled with poverty, hunger and unemployment, Jesus’ words that one’s soul is infinitely more precious than food or clothing (Mt. 6:25) is indeed a challenging statement.

Stewardship calls people to recognize possessions as gifts of God’s love. Created in the image of God, human beings must use these gifts for their own good and the good of others whereby we offer to God the prayerful acknowledgement of His sovereignty. The powerful scene of the Last Judgment in Matthew’s Gospel reminds us that the Lord will judge us according to the measure of how we used our possessions as means of love and charity. Do we utilize the lens of faith in fundraising to see Christ literally in those on behalf of whom we appeal for help and assistance?

The Constitution on the Church in the Modern World from Vatican II urges all people to recognize possessions as “common property in the sense that they should accrue to the benefit of not only themselves but of others.” (*Paragraph 69*) In helping the poor, this same document teaches that people “are obliged to come to the relief of the poor, and to do so not merely out of their superfluous good.” (*Paragraph 69*)

The Gospel and the teaching of the Church make radical demands. However, upon reflection, they could not do otherwise. Stewardship within the Christian community today is not an option: it must

be a way of life. The vocation of the fund raiser is to challenge all people to stewardship as the basis for Christian generosity.

Justice and Charity

A reflection on the virtues of justice and charity offer a further insight into the implications and challenge of fundraising in the Christian community. According to the 1971 document from the Synod of Bishops, “Christian love implies an absolute demand for justice, namely a recognition of the dignity and rights of one’s neighbor. Justice attains its inner fullness only in love. Because every person is truly a visible image of the invisible God and a brother (or sister) of Christ, the Christian finds in every person God himself and God’s absolute demand for justice and love.”

The relationship between justice and charity is important for fund raisers. So often appeals are made in the name of charity, but Christian stewardship calls for the appeal also to be made in the name of justice. Charity and justice are intertwined for disciples of Jesus. An appeal for help in the name of charity is an appeal in the cause of justice. Justice calls us to fulfill basic obligations, but hopefully in our service and care for others, we are motivated by Christian charity. What we preach to others in various forms of fundraising and stewardship, we ourselves must live in our own lives.

St. Paul offers a good example of not only personal witness to justice and charity, but an appeal to others in the name of these same virtues. The 8th and 9th chapters of Paul’s Second Letter to the Corinthians are an example from the early Christian community of how Paul appealed for resources to help the poor Christians in Jerusalem. The countless appeal letters for funds today could well look to the appeal letter of 2000 years ago as a model.

St. Paul begins by offering the Corinthians the example of others—the Macedonians. Despite what would be equivalent to a severe recession today and the experience of poverty, the

Macedonians responded to the need with abundant generosity and even in a spirit of joy. Paul goes on to remind the Corinthians of their own giftedness in so many areas of human experience and that their generosity should be characterized by that same spirit. But then in a simple but powerful statement, Paul offers the example and model of Christ who made himself poor, though he was rich, so that they might become rich by his poverty. Jesus himself is the prime example for sharing one's gifts. Yet, that very statement offers a challenge to fund raisers today. Are we hesitant to share our appeal in the name of Jesus? Are we hesitant to name the Lord as the basis for our appeal?

Paul then becomes very practical in his appeal. The gift should be in accord with one's means. He reminds the Corinthians that they too may need the charity of others. The classic phrases from the New Testament on the rewards of generosity bring the appeal to a conclusion with the recognition of God's love for the cheerful giver and the promise of reward for one's generosity.

Paul's appeal is rooted in justice and charity. He does not make the response to the appeal a matter of law, but he presents an ideal with human and Christian motives. The development of resources in the Church today must also present the challenge to Christian generosity in the same way.

The Mission of the Church Today

The Church continues the mission of Jesus. After almost 2000 years, that mission has become more complex and demanding, especially in the need for the Church to develop resources to fulfill its mission. A primary purpose of the mission of Jesus is not only the maintenance of existing structures and programs, but to be caught up in a sense of mission, an experience of evangelization. The essential mission of the Church today is to evangelize all people, to share with them the liberating message of the Gospel through Word and Sacrament. The constitution on the Church in the Modern World from Vatican II states:

“...the Church has always had the duty of scrutinizing the signs of the times and of interpreting them in the light of the Gospel. Thus, in language intelligible to each generation she can respond to the perennial questions which men ask about this present life and the life to come, and about the relationship of the one to the other. We must therefore recognize and understand the world in which we live, its expectations, its longing, and its often dramatic characteristics.” (*Paragraph 4*)

Fundraising and stewardship must be aware of the mission of the Church in today's world. The Christian community in turn must challenge those who develop resources to direct their efforts towards responding to the signs of the times and to respond to the mission of the Church. Most Rev. Robert Morneau, Auxiliary Bishop of Green Bay, in an article entitled, “Toward a Theology of Stewardship,” reflects on the mission of stewardship in the context of the life of the Church.

“The Church Jesus founded is called to do many things: to worship and pray, to share values and vision in education, to foster a faith community, to provide strong leadership, to reach out to others in justice and charity. Though related to all areas, stewardship is more visible in the act of reaching out. History records how different functions of the Church are stressed during different periods. In the latter part of the 20th century, we are keenly aware of the need for the Church to be a good steward because of the limited resources that are available to us. But it is important always to relate stewardship to the other aspects of Church life lest it lose its proper perspective and become a distortion.”

Bishop Morneau raises the basic question: does fundraising serve the Church or does the Church serve fundraising? A theology of fundraising and stewardship demands that we place our efforts within the mission of the Church.

Our sharing in the mission of the Church is but a consequence of our identity as disciples of Jesus.

This sharing involves not only faith and worship, but also the sharing of time, treasure and talent. Fundraising to develop resources to continue the mission of the Church need not be approached hesitatingly or apologetically: rather fundraising offers the members of the Church the opportunity to fulfill a basic responsibility.

Practical Implications

What are the practical implications of these reflections based on stewardship, the virtues of justice and charity, and the mission of the Church? I believe they would include the following:

1. Fundraising within the Church is a vocation of service. As such, it is an exercise which helps build up the Body of Christ. Those involved in this vocation are servants of the community and must see their service not as an end in itself, but as a contributing factor to the life of Church which responds to the agenda of the Church today.

2. Fundraising provides people with the opportunity to fulfill a responsibility and obligation rooted not only in charity, but also justice. Fundraising must communicate a catechesis of stewardship to the entire Christian community. Stewardship must become the life style of each person. The success of fundraising will be determined not by reaching or surpassing announced goals through the extraordinary generosity of a few, but by communicating the reality of stewardship and its obligations to as many people as possible.

3. Fundraising and the development of resources is an essential component of the pastoral ministry of priests, religious and lay persons. Leaders and members of a community cannot dismiss this activity as irrelevant or not personally satisfying and shift the responsibility exclusively to the Bishop, religious superior, pastor or the development office. The pastoral minister must preach the challenge of stewardship and the obligation all people have to share time, treasure and talent.

4. Just as fundraising is based on an understanding of justice and charity, these same virtues should characterize all efforts of fundraising and stewardship. Accountability for the resources developed, accumulated and expended is not an option: it is a required expectation. Accountability and responsibility must characterize all fundraising efforts at every level of Church life. The Guidelines for these efforts developed by NCDC are an excellent resource to help fulfill this accountability and responsibility.

5. Modern technology has influenced fundraising methods and procedures through the ever-increasing presence of electronic equipment, word processors, and computers. Yet, despite these new approaches, appeals for assistance should try to retain an awareness that help is being asked of people with names, faces, and identities rather than in terms of a "cold list" or the chosen elect whose names might be found in a "golden book" or its equivalent. Fundraising must not become so professional that it contradicts the Gospel values of personal human dignity and worth.

6. All fundraising activities should re-examine on a regular basis the needs for which help is asked. In light of the signs of the times, is the purpose of the appeal consonant with the ministry of Jesus and the mission of the Church today? Is the appeal continued because it works or has existed so long that it is taken for granted? Do we ever raise the question whether the appeal should be discontinued? Fund raisers should develop an ecclesial sense which places their efforts within the needs of a larger awareness of Church in a community, diocese, nation and world.

Conclusion

The Church today exists in a world with new expectations and challenges. The Church needs resources to fulfill its mission. Fundraising helps the Church respond to this need. A theological reflection on fundraising gets to the heart of its

value as a human and Christian enterprise because theology asks if in all the efforts expended on behalf of fundraising, do we discover the mystery of God's

presence. The answer to that question makes what we do a grace or a curse. Thank you to all those involved in NCDC and the Stewardship Council for helping me see what you do as a grace.

The late Most Reverend Thomas J. Murphy, STD., DD, died of acute leukemia, while serving as the Archbishop of Seattle, Washington. At the time of his death he was also the Chairman of the Subcommittee on Stewardship of the US Bishops' Conference and Episcopal Advisor to the National Catholic Development Conference. He was instrumental in the writing of the US Bishops' Stewardship Document. This paper was first presented at the joint Annual Conference of NCDC and NCSC, September 19, 1983 in Orlando, Florida.

Chapter 2

Roles, Responsibilities and Relationships

Introduction

The development program in any religious institute plays an integral part in insuring the successful fulfillment of the institute's long-term mission. This can only happen if leadership, the finance office and the development office work collaboratively. This collaborative model is characterized by mutual understanding, cooperation and shared commitment to the institute's mission.

There are various models of development programs available which are included in this chapter (see pages 12-13). The institute must determine which model will work best for them. The common purpose throughout all models is the promotion of mission through the invitation for others to participate.

Model A: Development Office of the Institute represents an internally managed development office. Money is deposited directly into institute's account.

Model B: Mission Office of the Institute represents an independently managed office with institute oversight. Money is retained in the development office and dispersed to approved ministries of the institute.

Model C: Separately Incorporated Development Office represents a development office for specific or new ministries of the institute.

Model D: Collaborative Development Office represents development as a collaborative ministry with other institutes to promote a common ministry.

Model E: Collaborative Fundraising represents collaborative fundraising for an event to promote the mission of a number of institutes.

The key responsibilities of the leadership, development office, and finance office are to promote the mission of the institute. The most important elements needed by these three groups are that they work collaboratively and that each is clear regarding their specific role in the process.

The role of leadership is to participate actively in the development program in whatever way is appropriate to the model within the institute. Leadership always represents the institute's interest in the mission.

In *Models A and B*, leadership collaborates in establishing goals and encourages collaboration among development, finance, and other offices.

In *Models C and D*, leadership supports development efforts through positions on the governing board and is responsible to report activities to institute's membership. No matter which model, their role in development as the representative of the institute is critical.

The development office in any model has as its purpose to develop and execute the fundraising process. This means that development office receives all donations and processes them, maintains the database and nurtures relations with the donor. The office works collaboratively with leadership to determine goals for development efforts (see Appendix pp. 81-84).

The finance office establishes appropriate accounting and reporting procedures for the development program and depending on the model may also collaborate in establishing development goals. The finance office also maintains financial records, creates reporting criteria and provides

financial oversight and competencies (see Appendix pp. 85-95).

In summary, whichever model the institute chooses, the purpose of any development effort is

to promote the mission of the institute by inviting persons to share their time, talent and treasure.

These models show how critical collaboration is among these groups in furthering the mission of the institute.

Qualities for Team Members

Leadership	Finance	Development
Visionary perspective for entire institute based on Chapter mandates	Visionary perspective for long range financial planning	Visionary perspective for development plan based on needs of institute
See the big picture as it relates to the entire institute	See the big picture as it relates to institute finances	See the big picture as it relates to mission and donors
Ability to motivate members for mission	Ability to motivate others to be fiscally responsible for the institute	Ability to motivate others to share the institute’s mission
Communication skills to represent the institute	Communication skills to work with internal and external publics	Communication skills to articulate the Institute’s mission and needs
Relational skills to build community	Relational skills to work with other institute offices	Relational skills to work with a diversity of donors
Managerial skills to delegate responsibilities to institute offices	Managerial skills to operate financial aspects of the institute	Managerial skills to coordinate all aspects of the development office and plan
Familiarity with finance and development practices	Experience and education in finances	Experience and education in development and fundraising
Ability to interpret financial information for good decision-making	Ability to analyze and interpret financial data unique to development	Familiarity with business practices: finances, accounting, tax laws
Openness to change/adaptability	Openness to change/adaptability	Openness to change/adaptability
Ability to keep appropriate confidentiality	Ability to keep appropriate confidentiality	Ability to keep appropriate confidentiality

Collaborative Roles of Treasurers and Development Directors

Treasurer	Collaboratively	Development Director
<ul style="list-style-type: none"> •Is informed and updated on all forms of development 	<ul style="list-style-type: none"> •Retains legal counsel 	<ul style="list-style-type: none"> •Works directly with donors in creating plans •Consults with leadership about introducing various programs, plans
Bequests		
<ul style="list-style-type: none"> •Shares all information received regarding bequests •Maintains legal papers 	<ul style="list-style-type: none"> •Consults legal counsel as needed •Keeps updated information on wills, bequests, etc. available for distribution 	<ul style="list-style-type: none"> •Encourages donors to make bequests to institute •Maintains relationship as appropriate with those involved in wills, etc.
Pooled Income Fund		
<ul style="list-style-type: none"> •Ratifies agreements prepared by counsel •Recommends separate trust •Pays fees for counsel and administration •Issues check for donors' share <p style="text-align: center;"><i>Sometimes bigger development offices manage the entire process and keep Treasurer informed through reports.</i></p>	<ul style="list-style-type: none"> •Consults legal counsel as needed •Keeps updated information on wills, bequests, etc. available for distribution 	<ul style="list-style-type: none"> •Encourages donors to make bequests to institute •Maintains relationship as appropriate with those involved in wills, etc.
Charitable Lead Trust		
<ul style="list-style-type: none"> •Receives fund payments and issues checks •Consults with counsel and leadership regarding assets needed to create annuity or trust 	<ul style="list-style-type: none"> •Creates clearly stated policy to make sure institute's assets are protected in consultation with legal counsel, leadership •Expert advice on taxes, all state laws are extremely important in moving in these directions •Makes decisions regarding process (age, monetary size, etc.) •Insures that all parties involved clearly understand where income and remainder go •Meets with counsel and fund administrator to set up initial agreements and to monitor agreements in place •Receives administrative reports •Acts appropriately at death of donor 	<ul style="list-style-type: none"> •Requires donor to consult with their own attorneys as the process moves forward •Signs agreements •Prepares appropriate materials/programs to solicit gifts •Sends checks and maintains correspondence/relationship with donors
Gift Annuities		
<ul style="list-style-type: none"> •Assist in preparing applications as necessary •Administrate fund 	<ul style="list-style-type: none"> •These programs are highly regulated and differ from state to state; there are registration and fees involved •There is a great deal of paperwork involving both departments •Seek legal counsel, leadership approval 	<ul style="list-style-type: none"> •Prepare applications •Notify donors of availability •Do follow-up

Religious Institute Development Models

	<i>Model A</i>	<i>Model B</i>	<i>Model C</i>	<i>Model D</i>	<i>Model E</i>
Title	Institute Development Office	Institute Mission Office	Separately Incorporated Development Office	Collaborative Development Office	Collaborative Fundraising
Purpose	To promote the mission of the institute and engage others to participate in that mission through prayer, volunteering, and financial assistance	To promote the mission of the institute as it is expressed in its ministries in order to engage others to participate in that mission through prayer, volunteering, and financial assistance	To create opportunities for new ministries to receive start up and subsidies through engaging others to participate in these ministries through prayer, volunteering, and financial assistance	To join in a collaborative ministry with other institutes to promote a common ministry by engaging others to participate in the mission through prayer, volunteering, and financial assistance	To join in a collaborative event in order to promote the missions of a number of institutes by engaging others to support the missions of these institutes through prayer, volunteering, and financial assistance
Sources of Income	Fundraising, grants	Fundraising, grants	Fundraising, grants, endowment from sponsoring institute	Fundraising, grants, loans, endowment from sponsoring institutes	Seed money from participating institutes, gifts-in-kind, advertising, event ticket sales
Accountability	Institute's leadership	Institute's leadership and/or governing board	Corporation officers	Governing Board	Leadership of participating institutes
Development Office Responsibilities	Executes fundraising process; receives all donations; thanks donors; maintains donor base; nurtures donor relationships	Executes fundraising process; receives all donations; thanks donors; maintains donor base; nurtures donor relationships	Executes fundraising process; receives all donations; thanks donors; maintains donor base; nurtures donor relationships; manages the funds	Executes fundraising process; receives all donations; thanks donors; maintains donor base; nurtures donor relationships	Executes fundraising process; receives all donations; thanks donors; maintains donor base; nurtures donor relationships; distributes income from event to institutes

Religious Institute Development Models (continued)

	Model A	Model B	Model C	Model D	Model E
Title	Institute Development Office	Institute Mission Office	Separately Incorporated Development Office	Collaborative Development Office	Collaborative Fundraising
Finance Office Responsibilities	Establishes appropriate accounting procedures for development office; deposits proceeds into correct accounts; maintains financial records; creates appropriate reporting criteria and processes; provides financial oversight and competencies; collaborates in establishing development goals	Deposits proceeds into correct accounts; maintains financial records; creates appropriate reporting criteria and processes; provides financial oversight and competencies	Acts as chief financial officer in accordance with by-laws of the institute	Examines reports as provided by the finance officer of the program	Receives income and deposits accordingly; receives financial report of the event
Leadership Responsibilities	Supervises development program; participates actively in development as official representatives of the institute and collaborates in establishing goals; facilitates collaboration among development, finance, communication and other offices	Supervises development program; participates actively in development as official representatives of the institute and collaborates in establishing goals; facilitates collaboration among development, finance, communication and other offices	Supports development efforts; represents institute's interest in mission; reports on development activities to institute's membership	Supports development efforts; represents institute's interest in mission; reports on development activities to institute's membership	Represents institutes' interest in mission; reports on development activities to institutes' memberships

Chapter 3

Internal Control Environment

Overview

In faith-based, mission-driven religious institutes, talking about such topics as internal control, segregation of duties, the control environment and fraud can be uncomfortable. These religious institutes operate within a framework of trust and goodwill. Discussions regarding controls and implementation of control procedures may sometimes seem inconsistent with this framework.

Sound operating procedures dictate that prudence and care be exercised while handling two of the religious institute's most important resources – its assets and its reputation. Ensuring that the religious institute's assets are managed safely, efficiently and effectively is consistent with prudent stewardship and an important role of management.

Proper controls provide protection to the religious institute and its employees. Every religious institute has a responsibility to avoid placing employees at risk. Further, appropriate systems create opportunities to enhance the efficiency and effectiveness of the religious institute as a whole.

Unique Attributes of the Development Process

Very often, the development office functions almost autonomously, operating outside of the normal day-to-day processes of the business office. The development office solicits and receives contributions directly from donors, raises money through special events, and is in contact with the general public to create an awareness of the religious institute and help advance its mission.

A department that operates outside of the routine systems and practices of the finance office

requires its own set of controls and method of oversight. However, with limited human resources, there may not always be the opportunity to segregate duties effectively. Therefore, establishing the proper control environment for its development office is a critical part of a well-structured religious institute.

Setting the Proper Tone

Religious institutes have an inherent advantage while establishing an effective control environment. Research indicates that the most effective way to implement measures to enhance controls is to base these measures on a set of core values embraced by the religious institute as a whole. These values provide a foundation for the key principles guiding the actions of all employees. Obviously, such values are at the core of religious institutes.

It is the responsibility of the religious institute's leadership to set the proper tone for ethical behavior. Setting this tone involves establishing and communicating expectations for ethical behavior and leading by example. Research also indicates that employees are more inclined to act in concert with the core values of the religious institute when they have positive feelings toward their employer. The key to an effective control environment is a culture with a strong value system bonded on integrity and respect.

The Control Environment

A committee comprised of representatives of five organizations influential in the reporting of financial information, including the American Institute of Certified Public Accountants and the Institute of

Internal Auditors published a document called: *Internal Control – Integrated Framework*. The committee, known as the Committee of Sponsoring Organizations (COSO), developed a framework that described five interrelated components of the control environment.

The components are:

1. *Control environment*. Sometimes referred to as the “tone at the top” of the organization; control environment encompasses the integrity, ethical values and competence of the entity’s employees. Management’s overall philosophy and operating style, such as how they assign authority and responsibility and organize and develop people structures this environment. Also important is the attention and direction provided by the board of directors. The control environment is the foundation for all other components of internal control, providing discipline and structure.

2. *Risk assessment*. The identification and analysis of relevant risks provides the basis in creating objectives for managing these risks. This component should address the risks, both internal and external, that must be assessed while establishing a control environment.

3. *Control activities*. Control activities are policies and procedures that help properly carry out management directives. Control activities occur throughout the organization at all levels and in all functions, including approvals, authorizations, reconciliations, reviews of operating performance, security of assets and segregation of duties.

4. *Information and communication*. Every organization has the need to identify, capture and communicate information to the right people to enable them to fulfill their responsibilities. Information systems within the organization are essential to this element of internal control. Internal information, as well as external events, activities and conditions must be communicated to enable management to make informed business decisions and for external reporting purposes.

5. *Monitoring*. The internal control system must be monitored by management and others in the organization. This is the framework element that is associated with the internal audit function in the company, as well as other means of monitoring such as general management activities and supervisory activities. It is important that internal control deficiencies be reported upstream, and that serious deficiencies are reported to top management and the board of directors.

It is intended that these five components be linked together forming an integrated system that is then integrated with the organization’s operating activities. Included within the description of the control framework are the concepts of segregation of duties, compensating control activities (approvals, reconciliations, etc.) and communication. These will be discussed in greater detail below.

Segregation of Duties and Compensating Controls

It is critical to an effective control environment that certain duties and responsibilities be segregated. The most important activities to be segregated are those involving receiving payments (cash receipts) made to the religious institute and making payments to others from the religious institute’s funds (cash disbursements). In either case, the same individual should not have access to the cash and have the ability to make postings to the general ledger. Recognizing that in a smaller religious institute this segregation can be more difficult to accomplish, it is no less important.

The control provided through the segregation of duties can be supplemented by instituting a combination of compensating controls. The design of the control structure will likely include attention to the segregation of duties as is possible, as well as the review and monitoring activities incorporated into the compensating control procedures.

Within the development process, as described earlier, challenges exist with respect to segregation of duties because:

- ❖ Development staff has the ability to receive cash directly
- ❖ Contributions are often not made in exchange for specific goods or services
- ❖ Funds received and payments made for certain special events may be difficult to control
- ❖ The development process operates outside the normal and routine accounting process
- ❖ It is difficult to establish and document development processes and systems as they often are varied or inconsistent

To compensate for these challenges and maintain an adequate system of internal control, it is necessary to institute a combination of appropriate segregation of duties (as possible) balanced with compensating controls.

Communication

Development operates outside of the routine accounting system yet must be incorporated into accounting records and reported properly. Therefore, it is incumbent on both parties to communicate with each other on an established schedule. The information reported by development often does not seem to agree to that reported on the general ledger by the finance office. This is due primarily to differences in how each department accounts for contributions and other related activity. It can be difficult to understand how accounting principles need to be applied in the recording of development activity. Regular communication, at least monthly, between development and accounting is necessary to facilitate the reconciliation of activity reported by each department and foster an appropriate control environment.

Development Cash Receipts Process

Overview

The area within the development/accounting system that warrants the greatest amount of control-related attention is the cash receipts and revenue recognition process. Contributions are

received in varying forms (i.e. cash, securities, property, pledges or contributed services) and through various venues (i.e. in person, at events or direct mail). Other inconsistencies are found when development may have received contributions that they did not solicit, the religious institute's leadership may not yet be aware of an impending contribution, or the gift may be a different amount than anticipated. These factors indicate the complexity of issues that must be addressed when establishing a proper control environment (see p. 19).

Control Procedures

As mentioned earlier, the most fundamental cash receipt control procedure is to institute a proper segregation of duties. Appropriate segregation of duties helps to ensure that transactions are reported and recorded accurately, assets are safeguarded, and that each department can appropriately focus on their area of expertise (see p. 20). Both the religious institute and individual employees benefit from the effective and efficient use of resources.

There are four general guidelines to consider while establishing an effective segregation of duties. They are:

1. Separation of the custody of assets from accounting: *The person who has temporary or permanent custody of an asset should not account for that asset.*
2. Separation of the authorization of transactions from the custody of assets: *The person who authorizes transactions should not have control over the related asset.*
3. Separation of duties within the accounting function: *One individual in the accounting or development office should not be responsible for recording a transaction from its origin to the point of posting to the general ledger.*
4. Separation of operational responsibility from the record-keeping responsibility: *Individual departments should not have responsibility for preparing their own records and reports within the general ledger*

system; *financial statement record-keeping should be handled in the finance office.*

The above guidelines should be evaluated when reviewing and implementing development office control procedures. The following considerations should also be made:

1. All funds received by the religious institute should flow through its normal cash receipts process.

2. Donations received by mail should be restrictively endorsed upon receipt.

3. A copy of every donation check and related correspondence received by the religious institute should be maintained.

4. The bank deposit should be prepared. The finance office should reconcile all deposits made by the religious institute.

5. The finance office should post cash receipts to the general ledger to serve as the primary record of all funds received.

Any correspondence included with a contribution that identifies restrictions as to its use should be noted by both the finance office and the development office. The documentation should be retained and made available to the auditors to ensure proper reporting on the financial statements.

Reconciliation

The development office will often have its own recording and reporting software to track individual donor activity and the results of specific programs, mailings and the department as a whole. The development office usually relies on this system for reporting their results to leadership.

An important element in the control system is to reconcile the activity reported by development to that recorded by finance. The frequency of the reconciliation will be established by the amount of activity and management preferences; however, reconciling the activity on a monthly basis would provide for the best opportunity to identify and resolve any differences in a timely and efficient manner.

Common reasons for differences between amounts reported by development and that reported by finance include:

1. funds received in the finance department are not communicated to development;

2. commitments made to development (e.g. pledges, bequests, etc.) that are not sufficiently documented or secure to warrant recording under accounting principles;

3. timing issues or differences, or

4. valuation differences in the case of in-kind or other non-cash contributions

In addition, there are often questions as to what contributions have been generated through the direct efforts of the development office and what contributions would have otherwise been donated to the religious institute in the absence of a development office.

Regular reconciliation of activity including resolution of differences provides an additional control procedure and promotes consistency in reporting of results to the religious institute.

Development Cash Disbursements Process

Overview

The guidelines for segregation of duties described above also apply to the cash disbursements process. In particular, the second guideline – “separation of the authorization of transactions from the custody of related assets” applies to the cash disbursements process for all departments. Following this guideline, the same person should not authorize the payment of a vendor’s invoice and also have the ability to sign a check. (see pp. 21-22)

Control Procedures

To maintain adequate segregation of duties, all disbursements should occur through the normal process for paying invoices. The development office’s involvement in this process would be through authorizing an invoice for payment and providing the appropriate supporting document. All checks

should be processed and mailed from the finance office.

Compensating Controls

Where it may be difficult to segregate duties adequately due to limited numbers or capabilities of the staff in the finance office, compensating controls can be implemented to overcome this apparent lack of control. Further, compensating controls can serve to supplement the internal control structure, thereby, strengthening the control environment (see pp 23-24).

Examples of compensating controls include the following:

- ❖ The letter of acknowledgment for each contribution, required for donor tax purposes, could be issued by someone outside of the development office, (perhaps even by a volunteer member of the community.) A member of the leadership team could sign the acknowledgment for all major donations, or call the donor directly.
- ❖ The prelisting of cash receipts (prepared by the individual who opens the mail) could be compared to the bank deposit by someone other than the individual who prepares the deposit.
- ❖ Establishing realistic goals for development and comparing to actual results on a periodic basis.
- ❖ Creating control mechanisms for special events (e.g. using pre-numbered tickets that are reconciled to cash received plus unsold tickets.)

- ❖ Ensuring that all correspondence to potential donors requests that contributions be sent to the finance office or a lock box.

- ❖ Performing a trend analysis of activity and comparing to relevant statistics.

- ❖ Encouraging solicitors to function as teams within the fund development staff.

- ❖ Using duplicate pre-numbered receipts so that repeat donors would know to expect a receipt for contributions.

Summary

In conclusion, establishing an effective control environment is a critical component to an effective religious institute. The proper segregation of duties, compensating controls and policies and procedures will allow for effective operation and maximum efficiency. No matter the size or structure of a religious institute, structuring and monitoring the control environment is a critical component of prudent stewardship.

Sources:

AICPA Audit and Accounting Guide for Not-for-Profit Organizations

The AICPA Audit Committee Toolkit

Auditing: An Integrated Approach (Arens and Loebbecke)

Statement on Auditing Standards No. 99

Chapter 3, "Internal Control Environment," was contributed by Plante & Moran, a firm that has a long history of providing accounting, auditing and a variety of consulting services to religious congregations and other not-for-profit organizations. Members of the firm are active at the state and national levels in providing training and education on technical issues, and served on the committee that issued the most recent AICPA Not-for-Profit Audit Guide. The firm is listed as a Service Provider of NATRI. Its main office is located in Southfield, Michigan. See www.plantemoran.com for more information.

COSO Framework Internal Control Questionnaire

1. Does the religious institute have a comprehensive code of conduct, and/or other policies addressing acceptable business practice, conflicts of interest, and expected standards of ethical and moral behavior?
2. Is the code distributed to all employees?
3. Are all employees required to periodically acknowledge that they have read, understood, and complied with the code?
4. Does management demonstrate through actions its own commitment to the code of conduct?
5. Is management explicitly prohibited from overriding established controls? What controls are in place to provide reasonable assurance that controls are not overridden by management? Are deviations from this policy investigated and documented? Are violations (if any) and the results of investigations brought to the attention of the audit/finance committee?
6. Does the religious institute have a process in place to ensure that controls as described in its policy and procedures manuals are applied as they are meant to be applied? Do the policy and procedures manuals document all important policies and procedures? Are these policies and procedures reviewed and updated on a regular basis. If so, by whom?
7. Do supervisory personnel review the functioning of controls? If so, how is that review conducted and what happens to the results? Is appropriate and timely follow-up action taken on exceptions?
8. Is necessary operational and financial information communicated to the right people in the religious institute on a timely basis and in a format that facilitates its use, including new or changed policies and procedures?
9. Is there a process in place to collect and document errors or complaints to analyze, determine cause, and eliminate a problem from recurring in the future?
10. Do officers and employees understand their obligation to communicate observed weaknesses in design or compliance with the internal control structure of the religious institute to the appropriate supervisory or management personnel?
11. Are interactions with external stakeholders (e.g. donors) periodically evaluated to determine if they are indicative of a weakness in the internal control structure?
12. Is there follow-up on recommendations from the auditors for improvements to the internal control system?
13. Are personnel asked periodically to state whether they understand and comply with the religious institute's code of conduct?
14. Are personnel required to sign off, indicating their performance of critical control activities such as performing reconciliations?

Cash Receipts and Disbursements Internal Control Structure

	Division of Duties - Names
Cash Receipts Procedures	
Collections	
Opens mail received	
Endorses checks restrictively	
Prepares tape of checks	
Compares remittance advice*	
Prepares tape of advices*	
Agrees above tape of checks with tape of advices and:	
Delivers checks to:	
Forwards advices to:	
Sends tape(s) to:	
Deposits:	
Writes up cash receipt book entry	
Prepares deposit slip and deposit package	
Makes deposit at bank	
Key – Recording and cross-checking control:	
Compares total daily receipts per tape of checks from collections procedures above with:	
Summary G/L cash entry (furnished by treasury)	
Summary G/L credit to account receivable (furnished by A/R section)	

*If checks are endorsed restrictively and then used as a posting medium, the use of remittance advices is not required provided the above key procedure or its equivalent is effectively carried out.

Cash Receipts and Disbursements Internal Control Structure

	Division of Duties - Names
Cash Disbursement Procedures	
Note: The following questions apply to general, payroll and other checking accounts. Where answers vary by account, different colored check marks might be used, or this and the following page may be copied so that a separate form can be used for each account that is handled differently. Where answers vary by account, be sure to provide a legend for different colors or separate pages used.	
Approval and payment:	
Controls and accounts for use of blank checks	
Approves invoice and other charge slips: Invoices are approved by appropriate department head	
Approves voucher as prepared	
Prepares tape of payments authorized for the day	
Prepares checks	
Signs checks (attach list if necessary):	
Delivers checks after signature to:	
Mails checks direct to payee	
Delivers supporting documents to:	
Prepares cash disbursement journal	
Key – Recording and cross-checking control: Compares total payments authorized by accounts payable personnel with total per cash disbursements record of treasurer and G/L cash entry	
Makes account distribution	

Cash Receipts and Disbursements Internal Control Structure

	Division of Duties - Names
<i>General Procedures</i>	
Reconciliation of bank accounts (monthly reconciliations should be prepared, reviewed and supervised by an employee who does not prepare or sign checks or handle currency):	
Receives bank statements and paid checks directly in unopened envelopes	
Reconciles bank accounts upon opening	
Compares total daily receipts with deposits per bank statement	
Compares paid checks with cash record (test basis)	
Endorsements reviewed or test reviewed	
Reconciliation reviewed	
Follow up on deposit or collection items subsequently charged back to bank	
Cash on hand:	
Custodian of petty cash fund	
Custodian of other funds; change drawer	

Cash Receipts and Disbursements Internal Control Structure

General	YES	NO	N/A
1. Are all bank accounts and signers authorized by the leadership team?			
2. Is the signing or countersigning of blank checks prohibited? If not, do authorized signers satisfy themselves subsequently by an inspection of the checks and supporting data that they have been used for proper purposes?			
3. Is the practice of drawing checks to “cash” prohibited?			
4. If checks are prenumbered, are spoiled checks mutilated to preclude subsequent use and preserved for the purpose of accounting for numerical sequence?			
5. If a check signing machine is used:			
A. Are the signature plates when not in use in the custody of the persons whose facsimile signatures are on the plates?			
B. Is a reading of the machine after each use made by such person or by that person’s designee to ascertain that all checks signed have been accounted for properly?			
C. Are the two keys used by the check signing machine kept by individuals who do not have access to both keys?			
6. Are cash transactions recorded, in all cases, as of the date that checks or currency:			
A. Were received?			
B. Were disbursed?			
7. With respect to checks outstanding for an undue period of time, are such checks investigated by correspondence, etc., and is the payment stopped and an entry made restoring such items to cash?			
8. Are all disbursements made by check or imprest petty cash fund?			

**Cash Receipts and Disbursements
Internal Control Structure**

General (CONTINUED)	YES	No	N/A
9. Are disbursements for subsidiaries made by the parent religious institute and charges passed on through intercompany accounts thereby eliminating the need for subsidiary bank accounts?			
10. Do checks prepared by machine leave an audit trail?			
11. Are all receipts deposited daily and intact with a duplicate deposit slip on file?			
12. Are pre-numbered receipt forms issued at the point of original cash collection?			
13. Are all receipt numbers accounted for?			
14. Are cash budgets prepared?			
15. Are facilities adequate for safeguarding of cash?			
16. Are daily cash balance reports prepared?			
17. Are all bank accounts necessary?			

Chapter 4

Regulations

Part I: Development and the Treasury Function

Henry T. Chamberlain, S.J.

Treasury Function

Every organization has a treasury function. In a small organization, this function may be a part-time job of one person. Larger organizations may have a staff of many people to carry out the same responsibilities. The treasury function includes maintaining financial records, taking care of payroll, drafting the current budget for approval by the highest officers and/or board, making forecasts for future years, paying bills, collecting cash due to the organization (except pledges due, which a development office often handles), managing cash, overseeing investments, certain aspects of property management, and preparing reports. Not all of these duties may be applicable everywhere, but it would be a rare organization that had none of these roles.

Standards

The treasury function does not operate in a vacuum, or according to the preferences of the people involved. There are independently set constraints which establish what is expected. One of the first documents directly affecting religious institutes (and dioceses) was issued jointly by the USCC (now the United States Conference of Catholic Bishops—USCCB), the Conference of Major Superiors of Men (CMSM), and the Leadership Conference of Women Religious (LCWR) in 1977. This document strongly recommended that Catholic organizations engaged in raising funds also have audits which could, at least upon request, be shown to donors, both actual and prospective.

Consequently, the treasury function is constrained by auditing and accounting standards. Two independent bodies set most of these standards: the Financial Accounting Standards Board (FASB) and—especially for standards of auditing—the American Institute of Certified Public Accountants (AICPA). The Sarbanes-Oxley Act of 2002 is also increasingly influential in auditing. Failure to comply with the standards can lead to a qualified opinion from an auditor. Qualified opinions, i.e., a statement saying that one or more facets of the report do not meet standards and may not give a fair presentation, are usually seen as negative factors by most donors—and also by most lenders.

The auditing standards are more directly constraints on the auditors. The standards tell an auditor what steps should be taken under various circumstances in order to be able to issue an unqualified opinion stating that the report reader has a fair presentation of the financial reality in this report. Only indirectly do auditing standards impact the subject of the audit.

Internal Control

One of the auditing standards calls for a review of internal control. Auditors want to make sure procedures are in place that minimize the risk of fraud and localize the treasury function in the treasury. Most auditors would not object to having separate bank and brokerage accounts plus a petty cash box in the development office provided the accounts are cleared at least monthly, or when they

Development and the Treasury Function (continued)

reach an internally specified amount, to other accounts handled by the treasury, and the box is replenished through the treasury. The accounts would be used only to receive donations of cash or securities; paying all development expenses and all investing would be done by the treasury.

Some auditors may be a little more lenient in this respect than others, but generally their professional preference is to see as many transactions as possible running through the treasury function. The difference in outlook results from other standards that require auditors to make professional judgments in view of the particular conditions of each audit.

Legally Distinct Development Offices

In some cases the development office is a legally distinct entity from the beneficiary organization. In this case, some adjustments of the suggestions above may be useful—particularly if the office raises funds for more than one beneficiary. But the point of clearing receipts regularly to the proper beneficiary still has great merit. Any retention by development for a long period could require the legally separate development office to set up a parallel office for at least short-term investments and other treasury functions if there is to be responsible management of gifts. As the ultimate beneficiary needs an investment office anyway, setting up a second one in the development office could be a wasteful duplication of donated resources. (See also Part II, below.)

Restricted and Unrestricted Gifts

The accounting norms issued by FASB do directly affect how the treasury function is carried out. FASB has norms to be used to determine whether a donation is restricted. Auditors presume that gifts are unrestricted unless there is some evidence from the donor indicating a restriction. If a donor

truly wants to restrict a gift, development should ask for a covering letter to this effect. If a restriction is only verbal, that does count; but an auditor may wish to seek a written confirmation from the donor. (In the context of audits, confirmations are mailed by the auditor directly to the person concerned and include a request signed by the audited organization that the reply be sent directly to the auditor's office.)

There can also be confusion about what constitutes a restriction. If an appeal is made for a specific, well-defined purpose set forth by development, for example, building an infirmary, auditors would regard gifts that are clearly in response to that request as restricted even if there were no covering letter from the donor. Auditors could, however, elect to confirm the restrictions.

On the other hand, the mere use of pictures of, or references to, typical scenes in the work of an organization or of individual members doing that work would not be seen as restrictions to particular places or persons pictured or mentioned. To create a restriction in this case, there would also have to be clearly restrictive language in the appeal.

Internal Designations

Only a donor, according to FASB, may impose a restriction. Sometimes governing bodies designate assets for certain purposes, and inside the organization such designations may be very similar to restrictions. Most auditors would be willing to split unrestricted net assets into board-designated funds and undesignated funds. But it is important to realize that these are two subdivisions of unrestricted funds since the governing body could also remove any designation it had made.

Permanent and Temporary Restrictions

FASB allows for two kinds of restrictions: temporary and permanent. Gifts for endowment-

Development and the Treasury Function (continued)

type funds are classified as permanently restricted. Other gifts may have a time or a purpose limitation that will expire. For example, a gift received this year intended to support next year's routine operating expenses would be temporarily restricted in all reports issued this year, but it would be moved to the unrestricted funds at the beginning of next year. Another gift that is received this year with a restriction as to the purpose for which it is to be used, e.g., purchasing a school bus, would be classified as temporarily restricted until the purpose is fulfilled. When the purpose is carried out, the gift would be transferred to the unrestricted funds. (An organization may elect, however, to use an exception for purpose-restricted gifts if it carries out the purpose in the same fiscal year as the receipt. In that case, it may treat the gift as if it were unrestricted and avoid the transfer process.)

Gifts for Security Investments

If a gift is restricted to security investments, whether the gift is cash to be invested or already in securities, FASB has different rules regarding investments held by business and by charitable entities. Charities must always carry their security investments at fair value. This usually means that the investment values in the reports of a charity are subject to the fluctuations of the market. Each year there would be a portfolio gain or loss due to market fluctuations. While FASB has announced its intent to apply the same rule to all security investments by business entities, it has not yet done so. Therefore, a donor could be surprised by a difference in the carrying value before and after the donation. If this accounting standard seems likely to disturb a donor, a development officer should alert this donor beforehand.

Ordinarily a charitable organization regards the management of its investments as an internal matter.

If a donor intends to restrict the choice of investments or to require the retention of donated securities, a development officer should advise the donor to state his requirements explicitly in an accompanying letter.

Pledges: Conditional and Unconditional

FASB also has rules covering gifts that will be given at some future date, perhaps in a subsequent fiscal year. FASB uses the term, "promise to give," instead of "pledge." Promises to give are either conditional or unconditional. A conditional promise to give requires the fulfillment of the expressed condition before a true promise exists. An announcement by a prospective donor that, "If Corporation A and Corporation B merge, I will give Religious Institute R 1,000 shares of the new merged corporation," would be a conditional promise to give. If the merger does not happen, regardless of why, there is no promise, no pledge to R.

While a development office would certainly keep a record of this conditional promise to give, FASB norms do not allow it to be recognized in financial statements. It is too uncertain for inclusion.

If the merger does take place later on, the condition has been met, and the straightforward promise has become unconditional. In this case, FASB norms do require recognition in the statements. If the shares are delivered instantly, there would be an increase in the investments and an increase in donations received in the amount of the fair value of the shares. If there is to be an interval before delivery, the investment increase would be replaced by an increase in promises receivable; when there is a delivery, the investments would increase by the fair value of the stock on the arrival date and the receivable would be eliminated. If the value of the stock has changed in the interval, the difference would go into a gain or loss category to balance the entry.

Development and the Treasury Function (continued)

Valuation of Pledges

Some donors will see a similarity in this process to commercial accounts receivable at a department store. They are correct. The similarity is not perfect because the donor is usually not legally obligated to deliver a pledge in the same way as one who uses a charge account at a store. But FASB requires that there be an allowance for uncollectible promises, just as it would for a department store. It also requires that pledges or unconditional promises to give that are due in later fiscal years be stated at their present value. The calculation formula for the present value of a series of future payments includes a discount because the payments are not due at once. Thus the total of all pledges will be greater than the net amount of promises to give appearing in the audit.

Accounting Documents

These are the main constraints on the treasury function that may impinge on the development function. If a development office needs more information, it may consult Statements of Auditing Standards issued by AICPA and Statements of Financial Accounting Standards from FASB. Among the numerous FASB statements several deal directly with non-profit organizations and could affect development: Statement 116, on contribution accounting; Statement 117, on financial statement presentation; and Statement 124, on investments. A legally separate development office may be affected by Statement 136 (See also Part II, below).

Record Retention

There is also a concern that both the development and treasury functions share: record retention. Both need to retain records for audits, for possible inquiries by the Internal Revenue Service, and unpredictable future needs, for instance, the revisiting of restrictions on a gift. A tax return on

which a donor could claim a tax deduction for a contribution may, with proper extensions of filing deadlines, be delayed for over eighteen months from the date of the contribution. The filing date of the tax return by the donor determines the start of the three-year period in which tax officials, federal or state, may question a tax return. (After that period, a donor may usually invoke the statute of limitations.) Thus the holding period for donation data should be a minimum of five years from the date of the donation. A good archivist could often justify a much longer holding period for data on some donations—or permanent retention if such things as deeds to donated property are involved. The five-year period would seem to be the very minimum holding period for documents related to gifts.

What precisely should be kept? Normally the following documents would be included: any correspondence prior to the gift that is related to it, the donor's covering letter—which will ordinarily be the document determining whether there is any restriction on the gift, and what that restriction is, any pledge card the donor may have signed, any form the donor may have filled out when the gift was sent, and a copy of the acknowledgment letter. Many development directors retain more, e.g., photocopies of donated security certificates, and laws in some jurisdictions may add other varying requirements.

The acknowledgment letter is always important, but it is particularly so for certain gifts. Under current tax law, the donor needs this letter in order to claim a tax deduction for any cash gift with a value of \$250 or more. If the gift is not in the form of cash or a check, the donor's charitable tax deduction is generally limited to the fair market value of the donated property on the date of the donation.

Development and the Treasury Function (continued)

Part II: FASB Statement 136 and Fund Raising: A Further Look

In 1999 the Financial Accounting Standards Board (FASB) issued its Statement of Financial Accounting Standards, No. 136, entitled “Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others.”

Statement 136 deals mostly with fund raising entities that are seeking or holding donations on behalf of some other entity. It fills a gap left by paragraph 4 of Statement 116, “Accounting for Contributions Received and Contributions Made.” Statement 136 is in addition to, not a replacement of, Statement 116. One example is a foundation that seeks gifts, and possibly also manages an endowment fund, for a charitable entity such as a hospital. A second example would be an office that raises money for the foreign missions. A third would be a fund raising campaign by a religious institute on behalf of a number of different apostolic organizations.

Mostly—but not entirely—outside the scope of Statement 136 would be a fund raising office that is internal to the organization it assists. An example would be a development office that is an internal administrative division of a school.

Some requirements in Statement 136 do apply to all not-for-profit organizations. The first is that, if (but only if) an organization elects to include in its financial report a ratio of fund raising expenses to the amount raised, the report must also disclose in a note how the ratio was computed.

The second is that some transfers of assets are not contributions at all. For example, revocable transfers and transfers in which an entity names as the final recipient either itself or another entity it controls would not qualify as contributions. These and other cases cited by the rules found in Statement 136 do not seem frequently applicable

to religious institutes. But one should be alert to the fact that asset transfers are not always contributions.

To understand what Statement 136 requires, one could begin by reading the summary FASB provides in the booklet containing the statement. Technically this is quite sufficient. Yet FASB cannot reasonably be expected to treat all instances in which its statement may be applicable. The following comments are intended to show some of the ways Statement 136 could affect a religious institute.

Probably without realizing how close its position on donor intent is to that found in canon law, FASB has as an underlying principle in Statement 136, just as in Statement 116, that the intent of the donor is of paramount importance.

With this in mind, it will then help to imagine several situations in which the initial recipient of transferred assets in any form (cash, real estate, securities, vehicles, etc.) is not meant to be the final recipient of the assets. Some examples have been given above (the foundation that supports a hospital, the office to aid foreign missions, the religious institute program to help some of its houses).

Situation 1

If a donor says nothing about how the assets transferred are to be used, or makes only a sweeping statement, e.g., “use this gift where you think it will do the most good,” the initial recipient organization should record the transaction as a receipt of cash or other assets from the original donor and unrestricted contribution revenue.

When the initial recipient passes on the gift, the initial recipient, not the original donor, is the one making the contribution to the final recipient. The initial recipient should recognize contribution expense, and the final recipient should recognize

Development and the Treasury Function (continued)

contribution revenue (which could be restricted if the initial recipient takes that extra step).

In this situation, there are actually two contributions because the original donor did not obligate the initial recipient to pass the gift on to a specific final recipient (and possibly also for a defined purpose); instead, this discretion was left in the hands of the initial recipient. Thus, one and the same sum of money (or other asset) could lead to two distinct, yet related, contribution transactions.

However, there is nothing to prevent the final recipient from telling the original donor that “we have gratefully received a payment from the initial recipient along with a note saying your gift made the payment to us possible.” On the contrary, rules in more than a few institutes urge gratitude to all donors.

Situation 2

If the donor in Situation 1 had expressed a desire to help a particular endeavor, the outcome in Situation 1 could have been different. To decide this, one needs to know more about the intent of the donor. The initial recipient has to find out if the donor is expressing a preference or a true restriction when a particular endeavor is named. If only a preference is meant, so that the initial recipient could still override the preference—even if this is not done—without going back to the original donor for permission, the procedure is the same as in Situation 1.

The key question in Situation 2 is whether or not the initial recipient still has discretion in deciding the use of the assets transferred to it, regardless of whether or not such discretion is used. If the initial recipient still has discretion, the initial recipient has an unrestricted contribution from the original donor. The final recipient, whether or not it is the donor’s preference, is the recipient

of a distinct contribution from the initial recipient, perhaps with restrictions not imposed by the original donor whose gift made the second contribution possible.

Readers of Statement 136 will not find any reference to donors with preferences that are less than true restrictions. FASB would classify Situations 1 and 2 simply as unrestricted gifts left to the discretion of the initial recipient. But this concept of a preference that is short of a true restriction could be very useful in donor education that may have to follow from Statement 136, especially in cases involving overseas missions.

Situation 3

If the donor’s desire turns out to be a true restriction, another question must be asked: does the donor also explicitly grant the initial recipient variance power? Variance power is the ability to change even a true restriction without further reference to the original donor. If variance power is given to the initial recipient, the initial recipient is free to change the final recipient and/or the purpose of the gift. Statement 136 requires that variance power, if conferred, must be conferred explicitly on the initial recipient. Implicit or presumed variance power risks violating the intent of the original donor and thus does not satisfy the norms of Statement 136.

The initial recipient has no obligation to use the variance power, but it should not give any guarantees of this nature to the original donor. A guarantee could put at risk the tax deduction of the original donor.

If an explicit grant of variance power is given by the original donor to the initial recipient, then the initial recipient would record the asset and restricted contribution revenue. If the variance power is not used, the initial recipient would make an identically restricted contribution to the final

Development and the Treasury Function (continued)

recipient named by the original donor. If the variance power is used (and prudence seems to indicate that this would be a rare event), the contribution made by the initial recipient could be either restricted or unrestricted and to any final recipient chosen by the initial recipient.

Situation 4

If the original donor's desire is a true restriction to a particular final recipient, and variance power is denied, not mentioned, or not requested, the procedure changes. The original donor does make a contribution, but not to the initial recipient. The initial recipient of the restricted donation must recognize only a liability to the specified final recipient, not contribution revenue.

Unlike the other Situations, the initial recipient here does not receive a contribution. Why? The initial recipient never has the discretion needed to make the transfer a contribution to it. When this happens, the initial recipient becomes a mere conduit or pipeline between the original donor and the final recipient. When the donation is passed on to the final recipient, the final recipient should recognize contribution revenue (if a receivable has not already been recognized), but the initial recipient should recognize only the removal or extinguishing of a liability, and it may not impose any other restrictions except those it received.

Situation 5

FASB is aware that some initial recipients are set up to benefit a single final recipient or a group of affiliated recipients. The example is the hospital mentioned above, plus its related foundation. Statement 136 says the original donor does make a contribution when he gives to the foundation, and, depending on what the original donor says, the foundation could recognize either unrestricted or restricted contribution revenue. In turn, the

foundation contributes to the final recipient (and observes any restrictions the original donor may have set down, unless an explicitly conferred variance power is actually used). Even if the foundation was established by the final recipient to serve only a single entity, the foundation is a contributor, not merely a conduit, to the final recipient.

The logic for this is that, in the absence of a foundation, the final recipient itself would become the initial and only recipient of the contribution and come under Statement 116. In this regard, Statement 136 is effectively saying that a transfer to either the foundation or directly to the final recipient qualifies as a contribution, thereby clearing up an ambiguity in Statement 116.

Overseas Mission Offices

There is at least one area of concern for Catholic organizations. If the final recipient is an entity outside the United States, what is described above as Situation 4 could cause the donor serious problems with federal income taxes. If a donor sends money to an organization in the U.S., and if the money is truly restricted to a foreign mission as the final recipient, the initial recipient may acknowledge receipt of the money and promise to transmit it, but the acknowledgment by the initial recipient should not refer to the money received as a charitable contribution.

If a donor chooses to send a gift outside the United States, the donor cannot claim a charitable contribution deduction if a domestic U.S. charitable organization may not recognize more than a liability, or if no U.S. domestic charity is involved at all in the transaction. Direct gifts to foreign final recipients are not deductible; neither are gifts sent via a domestic U.S. bank account that a foreign final recipient may have opened as a collecting point for donations. Having the bank account in the United

Development and the Treasury Function (continued)

States is permitted; what is not permitted is a donor's claim for a contribution deduction based on a gift deposited in such an account.

For the original donor to claim a U.S. federal income tax deduction for a charitable contribution for overseas gifts, the donation must fit under Situations 1, 2, 3, or 5. If Situation 4 applies to overseas gifts, or if no domestic charitable entity is an initial recipient in the transaction, the Internal Revenue Code does not allow a deduction, and the Internal Revenue Service may deny the deduction and impose both interest and penalty charges on the donor who incorrectly claims the deduction.

While there are a very few exceptions to the rules against the deductibility of overseas charitable gifts when a domestic U.S. charitable organization may not recognize a contribution, most of the exceptions do not seem to apply very often to religious institutes.

In all cases in which any doubt arises regarding deductibility, a prospective donor would be well advised to seek professional tax advice to determine whether an intended gift meets the charitable contribution criteria for deduction on tax returns.

U.S. Internal Revenue Code

Some religious institutes may feel that Statement 136 is more onerous than the rules of the Internal Revenue Service. But that is not accurate. A careful reading of the Internal Revenue Code will show that Statement 136 simply brings domestic U.S. accounting requirements into much closer compatibility with what the Internal Revenue Code has contained for some time. Nobody says FASB standards and the Internal Revenue Code must always agree, and they do not. But it can be convenient when there is agreement.

Donor Education

Many Catholic organizations, but especially those assisting foreign missions, may find that donor education about expressing preferences only, or giving variance power, is vitally important. While these organizations may say that they will make every effort to comply with preferences and to avoid using variance power, they should be careful not to say or imply that they promise these things. Such promises could transform everything in Situations 2 and 3 into Situation 4.

It could also be a very wise step to review, and amend as needed, all printed materials distributed to donors, current and prospective, for compliance with both the Internal Revenue Code and Statement 136. Obtaining legal and accounting advice in these reviews would certainly be appropriate.

Other Matters

There are more points in Statement 136 than what appear here, especially with regard to any trusts that religious institutes sometimes have. These other points may apply less often to religious institutes, but there are cases in which they may apply. Again, professional advice would be in order.

Most religious institutes and their varied works should not find the implementation of Statement 136 overly troublesome. Statement 136 is likely to foster a more precise differentiation between transactions creating revenue and those creating liabilities, and encourage a much greater care in ascertaining donor intentions exactly.

Conclusion

The precision that the constraints from all the FASB statements demand of the treasury function can contrast with the lack of certitude that may sometimes be felt in the development function as the donors' decisions are awaited. The FASB norms

Development and the Treasury Function (continued)

on variance power may also cause frustration in the development function. As a result, there may once in a while be friction between the two functions. But the directors of the treasury and

development functions share a responsibility to see that questions are resolved quickly and that both functions work harmoniously for the overall good of the organization.

[EDITOR'S NOTE: Part II is a revision and update by Fr. Chamberlain of an article he wrote for the NATRI Financial Management and Accounting Manual, pp 4-39 to 4-42.]

Fr. Chamberlain is currently working in Rome as a treasurer and a financial consultant for certain international institutions of the Society of Jesus. He has an MBA from the University of Michigan, and has been engaged in financial work for Jesuit institutions in several countries for over 40 years. For the previous eleven years he was based in Rome and assisted Jesuit institutions in Africa, Asia, West Europe, and the United States as a financial consultant. He is a member of the joint USCCB/CMSM/LCWR Accounting Practices Committee, and has contributed to three books and written several articles.

Private Inurement, Private Benefit, and Intermediate Sanctions

Susan R. Arvanitis, MST, CPA

Religious institutes find themselves at a unique intersection of laws, responsibilities, and obligations. They must abide by the principles of canon law, adhere to the tenets of the Catholic faith, fulfill the ministries for which they were originally founded, carry out the purposes for which they were established under state laws governing nonprofit corporations, be truthful in their dealings with donors, and provide care for their members. To this lengthy list of responsibilities and obligations, we must add the limitations imposed by the Internal Revenue Code. Under Section 501(c)(3), organizations such as charities, schools, religious organizations, and similar groups are granted an exemption from federal income tax on the net income from their activities, provided they adhere to certain limitations. For institutions of the Catholic faith in the U.S., the IRS provides a single group exemption ruling annually stating, for the benefit of donors and the general public, that all organizations listed in the Official Catholic Directory qualify for exempt status under Section 501(c)(3). With the privileges of tax exemption, however, come certain obligations.

The discussion below provides an overview of three key prohibitions associated with tax-exempt status under Section 501(c)(3): those against private inurement, private benefit, and “excess benefit transactions.” Although all three are interrelated, there are distinct differences between them, and different consequences to their violation. Accordingly, we will analyze each one separately.

Private Inurement

Section 501(c)(3) provides that an organization must be organized and operated exclusively for an exempt purpose, and that no part of its net earnings may inure to the benefit of any private shareholder or individual. In the context of the tax law, “to inure”

means that the organization’s assets are becoming of advantage to an individual, or being used to benefit him or her personally. A “private shareholder or individual” is defined as someone having a personal and private interest in the activities of the organization, and is commonly referred to as an “insider.” Thus, the central concept behind private inurement is the idea that a person with clout or influence over an exempt organization can exploit it to his or her personal enrichment.

Identifying Insiders

“Insiders,” or persons with clout, can include a wide array of individuals. Most commonly, the term “insider” is used to refer to an organization’s board of trustees, board of directors, officers (examples include President, Vice-President, Treasurer, Chief Financial Officer, and Chief Information Officer), executive-level employees (such as an Executive Director of Fundraising, or Director of Finance), and their family members. However, “insiders” may also include an organization’s founders (and their family members), major donors, or independent contractors such as professional fundraisers, if these individuals exercise significant control over the organization.

When the person in question does not hold a title (such as officer) or executive-level employee position, determining whether he or she actually exercises significant control over the organization is accomplished by reviewing all the facts and circumstances of the situation. In various rulings, the courts have determined that an “insider” may include: church ministers, physicians recruited by a tax-exempt hospital, and for-profit commercial entities with which an exempt organization enters into a joint venture if adequate safeguards against enrichment of the for-profit partners are not implemented.

Private Inurement, Private Benefit, and Intermediate Sanctions (continued)

Examples of Inurement

An “insider” may exploit his or her influence in a number of ways. Although the original, early 1900’s connotation behind private inurement was that an individual would receive a dividend or distribution of the net income of the organization, much like a shareholder in a modern corporation, there are other, more common forms of inurement. These include but are not limited to: excessive salary or compensation for services, no-interest or low-interest loans from the organization, purchases of assets from the organization at below fair market value, rent-free use or below market rent of organization-owned facilities, the payment by the organization of above market prices for property purchased or facilities rented from the “insider,” or the favored use of vendors in which an “insider” of the organization holds an interest.

The IRS has denied organizations tax-exempt status because an “insider” was using his control of the organization to his personal advantage, by extending generous loans to himself and his family, by using organization funds to advance a personal hobby or to make stock purchases in companies owned by friends, by requiring the organization to use a personally-owned travel agency for all its business travel, and by personally utilizing organization-owned facilities on a rent-free basis. In each instance, an individual appeared to receive a disproportionate share of the benefits of the transaction, relative to the charity.

Religious institutes should be particularly wary of entering into contracts with outside fundraising firms where the fundraiser’s compensation is based on a percentage of funds raised. To avoid possible private inurement, such contracts should be negotiated on an arm’s length basis (e.g., consistent with market rates and industry standards for the services provided), short-term in length (or renewable annually), and a cap placed on the total

compensation the fundraiser can earn. Compensation should be calculated on the basis of funds raised, not the total revenues of the institute, and all contracts should be clearly documented in writing. In recent years, the courts have found revenue-sharing arrangements with professional fundraisers to result in private inurement where the percentage kept by the fundraiser was excessively high (typically, 70% or more).

Consequences of Private Inurement

The prohibition against private inurement is absolute; that is, any amount of private inurement is, potentially, grounds for revocation or loss of federal tax-exempt status. Practically speaking, revocation typically follows an IRS examination of an organization in which inurement has been found to occur. A finding of private inurement may also result in the assessment of penalty excise taxes on the insider(s) involved, as is discussed under Excess Benefits and Intermediate Sanctions, below.

Private Benefit

The concept of “private benefit” is separate from the inurement doctrine. Embodied in the language of Section 501(c)(3) that “an organization must be operated exclusively for an exempt purpose” is the concept that the organization’s activities must principally benefit the public at large, rather than an individual or small group of individuals – even if those individuals are not “insiders.” This is known as the “public benefit” test. Put differently, to qualify for exemption, an organization may not benefit private interests more than incidentally.

For “private benefit” to occur, (1) the organization must be conducting an activity that confers benefits on an unrelated third party; and (2) this activity serves to benefit private interests, rather than an exempt purpose.

Private Inurement, Private Benefit, and Intermediate Sanctions (continued)**Examples of Private Benefit**

In contrast to private inurement, private benefit involves unrelated parties, such as rank and file employees, landlords, service providers, purveyors of goods, and others who do not exert influence over the organization's decision-making. For a transaction to confer a benefit on any of these parties, there may be a flow of excessive payments, such as above market compensation, professional fees, loan interest, rent, or purchase price.

Alternatively, it may simply be that the organization's "business dealings" serve the private interests of the outsider to a substantial degree. For example, if an organization buys most of its goods and services from one vendor (or group of related vendors), fails to consider competitive bids from other vendors on a regular and periodic basis, and signs contracts with provisions favoring the vendor (such as a contractual term of several years or excessive interest charges on late payments), then private benefit is more likely. Simply put, a substantial purpose of a Section 501(c)(3) organization cannot be to keep a for-profit company in business. Doing so diminishes the resources that can be devoted to carrying out the organization's mission.

To recap: when excessive compensation is paid to an "insider," the result is private inurement. When an excessive payment is made to an outsider and it does not serve a substantially exempt purpose, the result is private benefit.

Consequences of Non-Incidental Private Benefit

Clearly, there are many situations in which a religious institute will provide some degree of private benefit to specific groups and individuals in the course of carrying out its mission. Employees cannot be expected to work without pay, rents must be paid, service providers compensated,

equipment purchased, and so forth. The issue is, how much is too much?

Unlike private inurement, the prohibition against private benefit is not absolute. An organization's exemption will only be jeopardized if the scope of its "private benefit" activity is such that it is more than incidental to the organization's other exempt purpose activities. To be truly incidental, the private benefit must be incidental both "qualitatively" and "quantitatively." That is, the private benefit can only be a necessary byproduct of the public benefits flowing from the organization's operation, and the benefits conferred on private interests by an activity should be significantly less than the benefits received by the general public from the same activity. Unfortunately, there is no bright-line test for measuring whether private benefit is more than incidental; it remains a determination that is made by the IRS based on all the facts and circumstances.

Two IRS rulings are frequently cited as examples to explain the concept of private benefit. In the first, a neighborhood charity whose primary purpose was the beautification of a single city block was denied exempt status on the grounds that its mission substantially enhanced the property values of private homeowners in the area, while benefiting the general public only to an incidental degree (Rev. Rul. 75-286). In the second, an organization was granted exemption, based on its mission of preserving and enhancing a lake that was used extensively for public recreation, because the benefits to private lake front property owners were incidental to the benefit to the general public (Rev. Rul. 70-186).

Excess Benefits and Intermediate Sanctions

In 1996, Congress expanded the federal income tax rules applicable to exempt organizations with the enactment of Section 4958, which imposes a series of excise taxes on certain "insiders" who

Private Inurement, Private Benefit, and Intermediate Sanctions (continued)

engage in “excess benefit transactions” at any time on or after September 14, 1995. These rules are frequently referred to as intermediate sanctions, because they represent an intermediate, alternative remedy to punish those who personally benefit from exploiting an exempt organization, without having to revoke the organization’s exemption in response to private inurement. Historically, revocation has been rarely invoked by the IRS, due to its severity: revoking the tax-exempt status of an otherwise worthy organization can have devastating results to the community served by the organization, while the benefiting “insider” is not directly harmed by the revocation.

Applicable Sanctions

Under Section 4958, the IRS may assess a penalty excise tax equal to 25% of the amount of the “excess benefit” received by a “disqualified person” from a Section 501(c)(3) organization. “Excess” means in excess of the value of whatever was received in return from the “disqualified person,” for example, the performance of services. Thus, excess benefits encompass many of the transactions subject to the prohibition on private inurement, including excessive employee compensation and fringe benefits, purchases of assets from the individual at greater than market value, below market leasing of space or property to the individual, or any other transfer of value between the organization and the individual.

The 25% penalty is only the first tier of excise taxes that may be assessed. If the “disqualified person” fails to correct or repay the “excess benefit” (with interest) after notice from the IRS, he or she will become subject to a second penalty equal to 200% of the amount of “excess benefit.” In addition, a penalty of 10% of the “excess benefit” may be assessed on each officer and director of the organization who knowingly and willfully participated in the transaction (up to \$10,000 per

transaction). Willful participation includes silence or inaction where the officer or director had a duty to speak or act.

Disqualified Persons

The statute invokes the term “disqualified person” rather than “insider,” and provides a more precise definition. An individual is considered a “disqualified person” if he or she was in a position to exercise substantial influence over the affairs of the organization at any time during the five-year period prior to the date of the excess benefit transaction. This includes the following individuals: President, Chief Executive Officer, Chief Operating Officer, Treasurer, Chief Financial Officer, voting members of the governing body (such as board of trustees or board of directors), and their family members.

“Disqualified persons” also include individuals meeting a facts and circumstances test, such as organization founders, “substantial contributors,” members of management whose compensation is based on the revenues of their department, and others who control a substantial portion of the organization’s operating budget or manage a significant segment or activity of the organization. A “substantial contributor” is defined as any person, trust, estate, partnership, association, or corporation who donates, in aggregate, more than \$5,000 in any fiscal year, provided the donation exceeds 2 percent of all gifts and bequests received by the organization, life-to-date, since its inception. Those who have taken a vow of poverty on behalf of a religious organization cannot be “disqualified persons.”

Relationship to Private Inurement

The intermediate sanctions statute does not replace the prohibition against private inurement, as embodied in Section 501(c)(3). While the IRS likely would impose sanctions penalties rather than pursue revocation, the IRS is not precluded from

Private Inurement, Private Benefit, and Intermediate Sanctions (continued)

revoking the organization's exemption, and may choose to do both in the most egregious cases. The Service will consider several factors in determining whether to pursue revocation, including the size and scope of the "excess benefit" which occurred, whether the organization has been involved in repeated "excess benefit transactions," and whether the organization has implemented safeguards to prevent future recurrences.

Protecting the Institute with a Rebuttable Presumption

While IRS examinations of religious organizations may be infrequent, if the agency has a reasonable belief that an "excess benefit transaction" has occurred involving a religious organization, it can initiate an inquiry and, based on its findings, assess the sanctions as appropriate. Consequently, religious institutes should take steps to protect their directors and key employees by availing themselves of the "rebuttable presumption" provisions of Section 4958.

The law provides a safe harbor for organizations to establish a presumption that the amount of compensation paid to a "disqualified person," or the amount involved in a purchase, sale, or other transaction, is reasonable. The safe harbor is met if:

The transaction is approved by the board of trustees or board of directors, where none of the participating members has any personal interest in the transaction.

The board obtains independent, comparable data or valuations concerning the transaction under consideration.

The board relies on that data in approving the transaction, e.g., the data is obtained prior to the transaction.

The board adequately documents its determination.

Comparability data may be based on industry surveys, documented compensation of persons

holding similar positions in similar organizations, studies by professional human resource consultants, or other comparable data, including documented phone calls. It is generally recommended that the organization obtain compensation data for at least three similar positions in similar communities.

Adequate documentation of the approved transaction includes not only the comparability data, but also the terms of the approved transaction and the date it was approved, and the members of the board who were present during debate and voting on the transaction. This documentation must be prepared before the later of the next meeting of the board, or 60 days after the final board approval of the transaction. The board must approve the documentation within a reasonable time after its preparation.

The presumption of reasonableness created by following the above procedures does not guarantee that the transaction will not be challenged by the IRS. However, the IRS must bear the burden of proof that the compensation is unreasonable by presenting sufficient contrary evidence.

Finally, all Section 501(c)(3) organizations are encouraged by the IRS to adopt a conflict of interest policy, together with procedures to monitor compliance, to ensure that transactions with "insiders" or "disqualified persons" receive the appropriate review.

Conclusion

Consistent with the canonical principles of stewardship, religious institutes have a responsibility under federal income tax law to ensure that their assets are being used fully to support their ministries, rather than to benefit private individuals. With careful and consistent review of transactions with those closest to the organization, an institute can safely navigate the rules to keeping its tax exemption.

Private Inurement, Private Benefit, and Intermediate Sanctions (continued)*For Further Reading*

IRS Publication 1828, “Tax Guide for Churches and Religious Organizations” (revised September 2003)
www.irs.gov/pub/irs-pdf/p1828.pdf

IRS Continuing Professional Education Text for 2001, Topic H, “Private Benefit under IRC 501(c)(3)”
www.irs.gov/pub/irs-tege/topich01.pdf

IRS Continuing Professional Education Text for 1990, Topic C, “Overview of Inurement/Private Benefit Issues in IRC 501(c)(3)” www.irs.gov/pub/irs-tege/eotopicc90.pdf

“Easier Compliance is Goal of New Intermediate Sanctions Regulations,” by Steven T. Miller, www.irs.gov/pub/irs-tege/m4958art.pdf

“Rebuttable Presumption Procedure is Key to Easy Intermediate Sanctions Compliance,” by Steven T. Miller www.irs.gov/pub/irs-tege/m4958a2.pdf

Susan Arvanitis, CPA is Province Controller for the Congregation of the Passion, Holy Cross Province, a men’s institute based in Chicago. Prior to joining the Congregation, she worked in the Chicago office of Deloitte & Touche LLP as a Tax Senior Manager. She has ten years of experience in public accounting providing tax consulting and compliance services to a variety of nonprofit organizations, and graduated with highest honors from University of Illinois at Urbana-Champaign with a bachelor’s degree in accounting and master’s degree in taxation.

The Sarbanes-Oxley Act

An Overview of Its Effect on Religious Institutes and Best Practices

Lee E. Werner

Why Sarbanes-Oxley

The American Competitiveness and Corporate Accountability Act of 2002, aka the Sarbanes-Oxley Act (SOX), came into being due to the corporate scandals of for-profit, publicly traded companies in the early part of the decade.¹ Sarbanes-Oxley was enacted to rebuild the trust and confidence of the investing public by setting high standards of accountability for these corporations. It also set severe consequences for failure to comply with these standards.²

Most of the Sarbanes-Oxley Act applies only to publicly traded corporations. However, many of these provisions could and should be implemented into the governance and management of most not-for-profit entities, including religious institutions. Religious Institutions are exempt from most of the Sarbanes-Oxley Act. However, voluntary compliance would create an atmosphere for prudent governance, due diligence and responsible management techniques being incorporated into the structure and daily operation of the religious institutions.

Two sections of the act are legally binding on all organizations, including not-for-profit entities. The first is under Title VIII of the act. It deals with the destruction, alteration, or falsification of records in federal investigations and bankruptcy. Title VIII, section 802, amended section 1519 of the United States Code (criminal code) as follows:

Whoever knowingly alters, destroys, mutilates, conceals, covers up, falsifies, or makes a false entry in any record, document, or tangible object with the intent to impede, obstruct, or influence the investigation or proper administration of any matter within the jurisdiction of any department or agency of the United States or any case filed under Title

11, or in relation to or contemplation of any such matter or case, shall be fined under this title, imprisoned not more than 20 years, or both.

Title XI is similar to Title VIII. It addresses tampering with a record or impeding an official proceeding. In addition, it amends the United States Code Title 18, section 1512 as follows:

Whoever corruptly—

(1) alters, destroys, mutilates, or conceals a record, document, or other object, or attempts to do so, with the intent to impair the object's integrity or availability for use in an official proceeding; or

(2) otherwise obstructs, influences, or impedes any official proceeding, or attempts to do so, shall be fined under this title or imprisoned not more than 20 years, or both.

In addition, section 1513e states:

Whoever knowingly, with the intent to retaliate, takes any action harmful to any person, including interference with the lawful employment or livelihood of any person, for providing to a law enforcement officer any untruthful information relating to the commission or possible commission of any Federal offense, shall be fined under this title or imprisoned not more than 10 years, or both.

This applies to anyone in the organization from the board level on down and the outside audit firm as well. Conviction for violating this section of SOX is severe, including severe fines and/or imprisonment.³

The penalties are also similar. Both sections of the act provide protection to employees who are “whistleblowers” to fraud. The board of directors must have a written policy against such fraud and provide a procedure to protect the employee who reports the misconduct from discharge, suspension, threat, harassment or other discrimination. This policy must be written and all employees made aware of it.

The Sarbanes-Oxley Act
An Overview of Its Effect on Religious Institutes and Best Practices (continued)

In 2003 public donations to charities reached \$241 billion.⁴ People are motivated to give because they value the cause, whether it is religion, education, health care, or international relief. Charitable giving above 2 percent of gross domestic product is one demonstration of our nation's renewed commitment to the good works done by charities and congregations."⁵ Over the last decade, there have been a number of high profile scandals involving not-for-profit organizations and the misuse or mismanagement of funds received from the donating public. The not-for-profit sector faces the same issue of public trust as for-profit corporations. The board of directors of a not-for-profit organization has a fiduciary responsibility to their donors, program recipients, volunteers, and staff to safeguard the organization's most valuable assets, its people, and the information that people use or have access to. An overlooked but important benefit to not-for-profits derived from SOX is that voluntary implementation of the concepts and improving accountability and operational processes will result in the organization being more effective in managing its charitable mission.

What You Need To Do

Because of the fiduciary responsibility a board of directors has to its organization, the board is charged with developing good governance and demonstrating good stewardship (i.e. Best Practices) for the organization and holding all levels of staff accountable in adhering to these practices. This is no easy task because no two religious institutions are alike; their mission may be in health care, education, social service or development, etc. In addition, a board of directors should not approve the adoption of SOX in its entirety since it would not be in the best interest of the organization, because most of SOX would not apply to them, nor would they implement all of it.

Ongoing compliance is a requirement of law for publicly traded companies. For religious institutions and other not-for-profits, it is recommended they adopt the provisions of the act that fit the organization and that the organization can reasonably implement and maintain. The board should not view this as a one-time project, or an unavoidable task that just needs to be done; planning for the long term is of paramount importance. Providing good governance and implementing best practices is an ongoing process of quality improvement that requires the involvement of the entire board and every staff member. It will require culture change and must become part of the operating structure of the organization.

Education is important, not only for staff members, but also board members. This should include education in ethics, internal control and risk assessment. A well-informed board of directors lends itself to performing better due diligence and helps in prioritizing the development of internal controls, policies, and procedures. It may also redefine the roles of staff members. Internal controls, including computer and data retrieval systems, are intimately intertwined with financial reporting and should not be treated as an add on or patch to financial reporting.

Best Practices

Title II of the Sarbanes-Oxley Act deals with the independence of the outside auditor and its involvement in non-audit work for the organization. Though not a requirement for not-for-profits, it is strongly recommended that any auditor or public accounting firm that is engaged in performing audit work not be involved in any of the following nine areas:

- bookkeeping or other services related to the accounting records of financial statements;

The Sarbanes-Oxley Act
An Overview of Its Effect on Religious Institutes and Best Practices (continued)

- financial information systems' design and implementation;
- appraisal or valuation services, fairness opinions, or contribution-in-kind reports;
- actuarial services;
- internal audit outsourcing services;
- management functions or human relations;
- broker or dealer, investment adviser, or investment banking services;
- legal services and expert services unrelated to the audit; and
- any other services that the Board determines, by regulation, is impermissible.⁶

This section also requires that the audit partner be rotated every five years. In addition, the auditor must report directly to the audit committee of the company. In order to avoid a conflict of interest, any person in a management position with the audit firm that has an audit engagement is barred from being employed by the client company for a period of one year after the audit.

Rotating the lead partner on an audit or the rotation of the audit firm every five years is strongly encouraged for religious institutions.⁷ A fresh set of eyes will help keep the audit process focused. It is also recommended that a firm other than the firm doing the audit engagement provide any non-audit work. This will prevent a conflict of interest of having the audit firm reviewing their own work. Even if someone in another part of the firm performs this work, this will further establish independence.

Title III of the Act deals with the audit committee and its independence. All members of the audit committee must be independent members of the board of directors and not be employees, paid consultants or paid advisors. The board is also required to have a level of expertise in the financial /audit field. In addition, the board is solely

responsible for establishing and maintaining internal controls. For smaller not-for-profit organizations, this could cause a problem in recruiting board members. In addition, if large donors are on the board of directors they could influence decisions related to the hiring of an audit firm or try to influence results of the audit process. There may also be a conflict between civil law, canon law, or particular law, if the religious institution's board is required to consist solely of religious. A model would have to be developed that would show good stewardship while retaining the intended mission of the religious institution's board requirement.⁸

Title IV addresses a number of issues:

- management's assessment of internal control, evaluation and reporting
- a written code of ethics for the senior financial officers that they read and sign
- a written disclosure of representation of financial expertise on the audit committee

This process not only helps to safeguard the organization but spotlights weaknesses in operating procedures that may already exist, creating an environment for continuous change and improvement.

The board of directors should consider adopting and developing these additional policies and statements:

Develop a written ethics statement that includes the appropriate provisions of SOX for your organization. This statement should be read and signed by all board members and updated as new people become board members or as circumstances change.

Develop a written comprehensive conflict of interest and disclosure policy in the same manner and have all board members read and sign it. This is important, because if your organization does not have this policy in place and a conflict of interest

The Sarbanes-Oxley Act
An Overview of Its Effect on Religious Institutes and Best Practices (continued)

develops, this could be an entry way for the IRS to revoke your 501(c)(3) status.

Reexamine your charitable mission statement to make sure that it does not cause a conflict in any way with SOX. In addition, review with management if the organization is effectively achieving the goals of the mission statement.

Establish a policy that the CEO (Superior) of the organization and the board chairperson roles are independent of each other and not held by the same person.

Where the development office functions independently from the religious institute, establish a compensation committee of independent directors that is charged with the responsibility of determining the compensation and related benefits of senior management. This reduces issues of conflict of interest.

It is recommended that the board of directors of any not-for-profit organization adopt these actions. This may cause a financial hardship on smaller organizations with limited resources or those with limited staff because of the cost of performing the compliance work, including hiring and/or retraining staff, added costs incurred for enhancing computer systems, and time diverted away from other projects. It will also make recruiting for board positions more difficult because of the higher level of financial knowledge required and the greater level of fiduciary responsibility involved in being a board member.

How Do You Do It

Management, (under the direction of the board of directors), should assemble a team from the various disciplines in the organization. Keep in mind this is not a one-time project, rather a continuous process of improvement. This will help to reduce the cost of compliance. As the board of directors

begins to assemble the necessary staff to perform the tasks of compliance, various disciplines should be represented on the team:

Finance
 Program
 Operations
 Development
 Information technology

Then the team categorizes and ranks the business processes utilized in the organization according to the level of risk of fraud or misuse that is associated with the process.

The information collected is then tested and reviewed to assure that the procedures work according to the written procedure and accomplish its intended goal. Some of the questions that should be asked as you start the evaluation process are:

- Can the safeguard be overridden?
- Is there a better method of handling the data?
- Is the procedure or process too cumbersome?
- Do the right people have access to the information or asset?
- Who is accountable for protecting the data or asset?
- Is the information handled in a timely manner?
- Is the information handled in a confidential manner?
- Are the organization's assets secured?
- Does the procedure expose the organization to liability or risk?
- How and what frequency are the systems and procedures of the organization tested?
- Who is responsible for testing the systems?

Once you have evaluated your systems and policies and procedures, make the necessary corrections, then go back and ask the same questions again. This should be done annually (a requirement of law for publicly traded companies). On the other hand, any time a significant change

The Sarbanes-Oxley Act
An Overview of Its Effect on Religious Institutes and Best Practices (continued)

occurs in program, method, or procedure, the system should be reevaluated.

Comments

Although most of the Sarbanes-Oxley Act is intended to affect the governance of publicly traded companies, parts of the Act do legally bind religious institutions. Therefore, a board of directors should seek the advice of legal counsel, a CPA, and your IT

consultant before implementing any portion of the Sarbanes-Oxley Act. In addition, a board should never pass a resolution that causes the organization to implement Sarbanes-Oxley in its entirety. Remember that as you go through the process of adopting these practices, create a long term plan that will result in a revamping of business practices and internal control. Consider it an ongoing process of quality improvement in stewardship that will benefit all who are involved in the ministry.

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The Sarbanes-Oxley Act
An Overview of Its Effect on Religious Institutes and Best Practices (continued)

(Endnotes)

¹ Enron, Tyco, WorldCom

² USC Title 18, <http://assembler.law.cornell.edu/uscode/>, ERISA Section 501, http://www.wnj.com/BLJ_Spring_2004_RDS.html

³ Imprisonment and or fines, USC Title 18, Sections 1341, 1343, 1512, 1513, and 1519

⁴ “Americans Give \$241 Billion To Charity In 2003”, AAFRC Trust Press Release on “Giving USA 2004”, http://www.aafrc.org/press_releases/trustreleases/americansgive.html

⁵ Henry (Hank) Goldstein, chair of Giving USA Foundation, Americans Give \$241 Billion To Charity In 2003”, AAFRC Trust Press Release on “Giving USA 2004”, http://www.aafrc.org/press_releases/trustreleases/americansgive.html

⁶ Sarbanes-Oxley Act of 2002, sec 201(g) (1)-(9), Washington, DC January 23, 2002.

⁷ Sarbanes-Oxley section 203

⁸ Sarbanes-Oxley section 203 that is similar to Canon law 492 which calls for a five year term for the finance council members, although renewable for additional terms. It does provide for a layperson with financial skills. However, under particular law the constitution of a religious institution may require all board members to be members of the order. “*Code of Canon Law Latin-English Edition*”, Canon Law Society of America, Washington, DC 1983

Lee Werner graduated with a Bachelor of Science Degree in Accounting, from the University of Illinois at Chicago in 1976. He is currently completing a Master of Community Development Degree at North Park University in Chicago. He has worked as a corporate controller for most of his career. Lee has also worked in public accounting and as a controller for a faith based not-for-profit organization. Lee is involved with a number of faith-based organizations. He is married and has two children.

Chapter 5

Accountability

To meet the ethical requirements of the National Catholic Development Conference (NCDC), members are required to sign documentation annually indicating that they adhere to the Precepts of Stewardship (see p. 60-61) and the Donor Bill of Rights (see p. 62). In addition, each member organization is required to submit a Statement of

Accountability indicating how monies donated to the organization were used. NCDC requires this to make sure such documentation exists since it is a principle of good stewardship and ethical accountability to donors. The first article in this chapter addresses how this statement is prepared. Sample statements are found on pages 50-53.

Statement of Accountability for Donors

from "A Guide for Preparing a Statement of Accountability"

a publication of the National Catholic Development Conference, Hempstead, NY

The Statement of Accountability is a special purpose report that describes and accounts for an organization's fundraising efforts and is of specific interest to donors and the giving public at large. Accordingly, the Statement of Accountability should be prepared in scope and design to meet the particular needs of its intended audience. In some instances, a suitably prepared set of audited financial statements or a published annual report may be issued in place of or to supplement the Statement of Accountability.

The Statement of Accountability is intended to portray the activities of the fundraising function of the organization and not the entire range of activities carried out by the organization. Accordingly, the Statement of Accountability reports all resources raised through an organization's fundraising material. The usefulness of the Statement of Accountability can be enhanced by including narratives, illustrations, or graphs describing the organization's services and programs. Other activities of an organization that would be included are the organization's services

and programs. Other activities of an organization, that would be included in the organization's audited financial statements, are not included in the Statement of Accountability.

Therefore, a Statement of Accountability will report the amounts of funds raised, and the application or distribution of such funds for program or supporting functions. It will generally not report the subsequent investment of such funds, the administration of deferred giving instruments, or the actual expenditure of funds by the programs since these activities will be carried out at different organizational levels.

For the most part, the Statement of Accountability is prepared in accordance with generally accepted accounting principles. NCDC believes, however, that the Statement of Accountability does not need to (a) segregate restricted support and revenue between temporarily and permanently restricted categories, or (b) include the footnote disclosures that would be required by generally accepted accounting principles (GAPP).

Statement of Accountability for Donors (continued)

The Statement of Accountability, regardless of scope, sets forth: the amount of funds raised, other revenues generated from the fundraising function,

the amount and use of the funds expended for program services, and the amount of funds expended for supporting services.

Components of the Statement of Accountability**Support and Revenue**

The amounts of public support are shown in the Statement of Accountability with material amounts identified in the following net asset classifications:

- Unrestricted: this is the total of all support that the donor has not restricted for specific uses.
- Restricted: this is the total of all support that has a donor-imposed restriction, whether temporary or permanent. Normally, these will include such items as mass offerings, endowment fund additions, and gifts for specific programs, uses, or purposes. If practical or material, restricted contributions should be reported by major category (endowment, capital additions, etc.) Generally accepted accounting principles require restricted contributions to be reported separately for temporarily restricted purposes; this segregation is not required for the Statement of Accountability.

Public Support

Public support represents charitable giving by donors for the work of the organization. An organization may show the total amount raised or may wish to display the major categories such as the following:

- Contributions: the category includes contributions of cash or investment securities, which are reported at fair value. Contributions from current donors may be reported separately from those received from new donors as a result of donor acquisition activities.
- Legacies and bequests: if at this time the amounts due from legacies and bequests can be reasonably estimated, they are recorded at fair value.

- Gift portion of annuity contracts or similar deferred giving instruments: the subsequent administration and accounting for such deferred giving instruments is generally performed by another department of the organization and, therefore, will not be reported in future years in the Statement of Accountability. When the fundraising office performs those functions, their financial impact is included in the Statement of Accountability to the extent applicable under generally accepted accounting principles.

- Promises to give: such promises, frequently referred to as pledges, are reported at fair value when the pledges are received. This is a major change in reporting for many organizations that previously have not reported pledges until they were collected. In determining fair value of pledges, it is important to consider their materiality and likelihood of collection.

- Contributed services: such contributions, which are reported at fair value and may consist of services to conduct the fundraising functions, or services to assist in program functions when they are solicited through a fundraising effort.

- Gifts in kind: these contributions are recorded at fair value and may consist of property, food, clothing, or other supplies.

- Special events: some organizations hold special fundraising events, such as banquets, dinners, theater parties, or golf tournaments. When such special events are part of the major ongoing operations of an organization, their revenues and costs should be reported at gross amounts. Otherwise, special events may be reported net.

Statement of Accountability for Donors (continued)

- Other contributions: this category includes items such as the contribution portion (if any) of membership dues and grants from governmental or other organizations that meet the definition of “contribution.”

Revenue and Other Income

Revenue represents money earned by the organization’s fundraising or development office. It includes amounts received from service activities (dues and fees for services, rentals, royalties and amounts from sales activities such as publications and materials), investment income earned on funds that are temporarily invested by the fundraising office before they are passed on to the ultimate beneficiary, and funds received from other branches of the organization to support fundraising activities. The grand total of all such revenue is shown in the Statement of Accountability. If material, the reporting organization displays the major categories and amounts that comprise the grand total. If material amounts of revenues are restricted by the donor or by law, they are reported from unrestricted revenues.

Some organizations sell merchandise in connection with their program and fundraising activities. For the purpose of the Statement of Accountability, the revenues from these sales are reported in revenues. The costs are allocated between program and fundraising costs and included in the appropriate cost category.

Funds Expended

Program Services

Reporting organizations summarize their costs and funds expended to others providing various services or other activities on a functional basis in the Statement of Accountability. Functional reporting classifications for program services vary according to the nature of the service rendered. For some organizations, a single functional reporting

classification may be adequate to portray the program services provided. Expenditures for program services are reported by type of service function or group of functions. The purposes of the various functions are clearly identified, and each functional classification includes all of the applicable disbursements and costs. For funds transferred for program services, the report specifies the amounts transferred to other departments within the organization, related organizations, and unrelated organizations.

Supporting Services

The Statement of Accountability separately identifies the following expenses:

- Fund raising
- Donor acquisition
- Educational joint cost allocation
- General administration, as may be appropriate

Fund Raising: these costs are incurred in requesting current donors to contribute money, securities, time, materials, or facilities. They normally included personnel, occupancy, maintenance of mailing lists, printing, mailing, and all other direct and indirect costs of solicitation, including the cost of merchandise used for fund raising, contributed services, and gifts in kind that are donated to support fundraising costs.

Donor Acquisition: when donor acquisition costs are shown separately from fundraising costs, the donor achieves a better understanding of the expense involved in attracting new donors to the organization. Acquisition includes, for example, the cost of an initial mailing to a list of prospective donors. Fund raisers often measure costs of acquiring new donors as the net cost of the initial mailing, i.e., direct mailing and allocated costs, less the support received from that initial mailing. However, for purposes of the Statement of Accountability, support and donor acquisition costs are shown on a gross basis.

Statement of Accountability for Donors (continued)

Educational Joint Cost Allocation: the American Institute of Certified Public Accountants (AICPA) has written a specific Statement of Position (SOP) in this regard. For more information read the article in this Chapter entitled “Accounting for Costs of Activities” (see pp. 54-57).

General Administration: these costs include general record keeping, business management, budgeting and similar general costs related to fundraising activities, and the routine acknowledgment of contributions. Fundraising departments may also carry out management activities for the organization, such as assistance with grant applications and general oversight of programs and operations. Such activities are reported as general administration expenses.

**Excess of Support and Revenues
Over Expenses**

The Statement of Accountability, prepared in accordance with the guidelines described above, will effectively report the resources raised and the disbursement of such resources in the period. In many cases, the resources raised will equal the disbursements. However, in some circumstances, such as when resources raised are temporarily held by the fundraising department before they are spent or passed on to other departments or other organizations for the purpose intended by the donor, there will be an excess or deficiency of support and revenue and expenses. In such case, footnotes or other explanations may be provided to illustrate the nature of such excess or deficiency and the subsequent disposition thereof.

Statement of Accountability Example #1

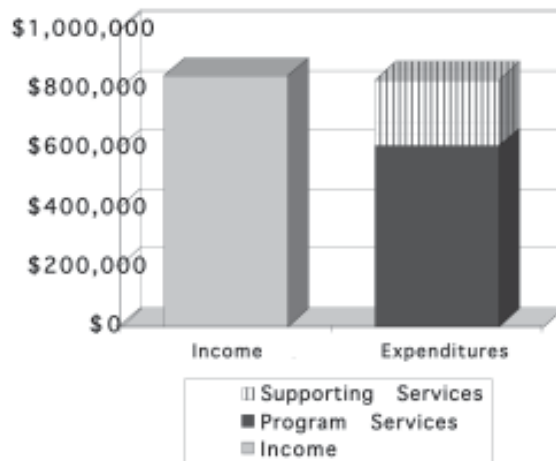
We Always Help, Inc.

Contributions are broken down by unrestricted donations amounting to \$720,000, restricted donations for masses and burses of \$25,000 and a pledge of \$10,000. The organization also received legacies and bequests amounting to \$26,500. These items are included in the Public Support area of the statement.

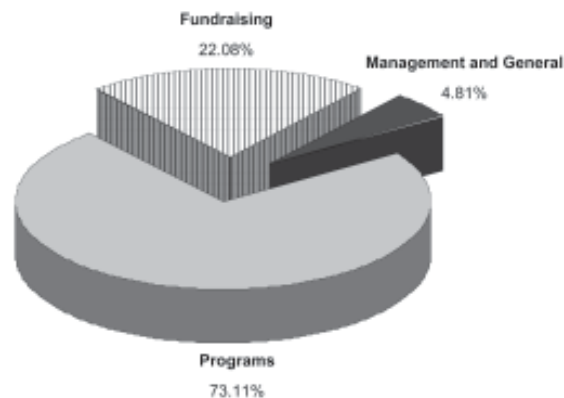
Included in Revenues and Other Income are interest and dividends of \$2,500, and support received from the Congregation of \$60,000.

There are eight individual programs and they are all listed in detail. The two programs relating to the restricted donations are listed separately, but not designated. The supporting service expenses are broken down between fund raising and management and general. There was no segregation of donor acquisition mailings reported by this organization.

Income



Expenditures



Statement of Accountability

Example #1 (continued)

We Always Help, Inc.

For the year ended December 31, xxxx

Public Support and Revenue

Public Support			
Contributions - unrestricted	\$720,000		
- restricted	25,000		
Pledges	10,000		
Legacies and bequests	<u>26,500</u>		
Total public support			\$781,500
Revenue and Other income			
Interest and dividend income		\$2,500	
Support from Congregation		<u>60,000</u>	
Total Revenue and other income			<u>62,500</u>
Total public support and revenue			\$844,000

Expenditures

Program Services			
Support of missions	\$200,000		
Support of infirm/retired	100,000		
Support of formation	50,000		
Support of congregation	35,000		
Promotion of devotion	145,000		
Information services	52,500		
Mass intentions	15,000		
Burse fund	<u>10,000</u>		
Total program services		\$607,500	
Supporting Services			
Fundraising	\$183,500		
Management and general	<u>40,000</u>		
Total supporting services		<u>\$223,500</u>	
Total expenditures			<u>831,000</u>
Public revenue and support over (under) expenditures			\$ <u>13,000</u>

Statement of Accountability

Example #2

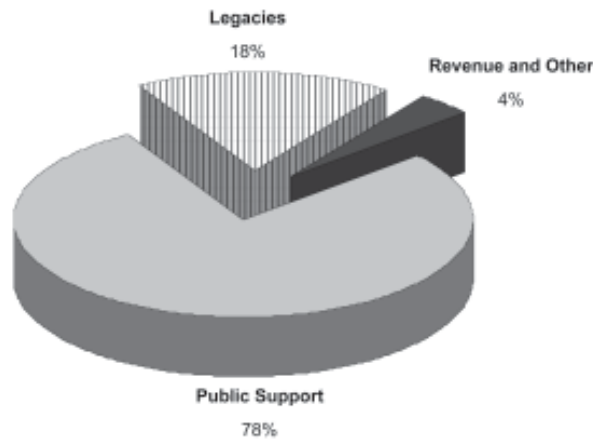
We Always Help, Inc.

Support from public is broken down further to include unrestricted and restricted contributions, new annuity contracts (gift portion of annuity contracts), donations in kind, contributed services and legacies and bequests.

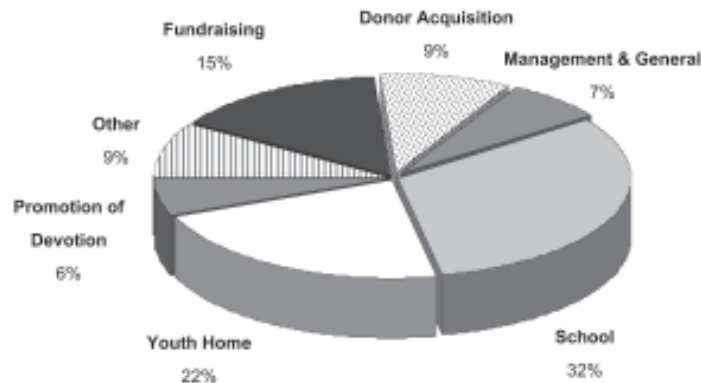
There are three major programs of the organization and one general category for the smaller programs. In Example 1, the programs were listed separately. Both presentations are acceptable.

The Supporting Services category details the cost of the donor acquisition activities as a separate line item. It does not break out the income from these mailings. This is acceptable, but the acquisition mailing income may be broken out of the contributions.

Income



Expenditures



Statement of Accountability

Example #2 (continued)

We Always Help, Inc.

For the year ended December 31, xxxx

Public Support and Revenue

Public Support

Contributions - unrestricted	\$705,000	
- restricted	20,000	
Annuity contracts	20,000	
Donations in kind	50,000	
Contributed services	10,000	
Legacies and bequests	<u>185,000</u>	
Total public support		\$990,000

Revenue and Other income

Interest and dividend income	\$15,500	
Rental income	15,000	
Pilgrimage income	5,000	
Name royalty income	<u>10,000</u>	
Total Revenue and other income		<u>45,500</u>
Total public support and revenue		\$1,035,500

Expenditures

Program Services

Support of school	\$325,000	
Support of youth home	225,000	
Promotion of devotion	65,000	
Other programs	<u>95,500</u>	
Total program services		\$710,500

Supporting Services

Fundraising	\$155,500	
Donor acquisition	95,000	
Management and general	<u>75,500</u>	
Total supporting services		<u>\$326,000</u>
Total expenditures		<u>1,036,500</u>

Public revenue and support over (under) expenditures		<u>\$(1,000)</u>
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Accounting for Costs of Activities

Lee E. Werner

Background

In the 1960's donors and regulators had become concerned that not-for-profit organizations were not allocating joint costs for programs and fundraising accurately or consistently. Program costs were being overstated and fundraising costs understated. In an effort to self-govern, the philanthropic community developed the primary purpose rule. It required that all cost of materials, i.e. stationery and envelopes, and activities, i.e. artwork, print, or media layout incurred in a fundraising appeal, be recorded as fundraising costs, except educational material costs which were reported as program costs. The direct costs associated with fundraising, along with the joint costs of the materials and activities, were fundraising costs.

The American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) 78-10 in 1978. When an organization combined the fundraising function with a program function, the costs were allocated to the program and fundraising categories based on the use made of the materials or activity. The content of the material, the reasons for the distribution, and the audience to whom it is addressed were the factors used to determine the use made of the material.¹ In 1987, the AICPA issued SOP 87-2, "Accounting for Joint Costs of Informational Materials and Activities of Not-for-Profit Organizations that Include a Fundraising Appeal." The purpose of SOP 87-2 was to reduce the confusion over how to treat joint costs. The problems SOP 87-2 was trying to address were the proper reporting of costs incurred for program or administration, and fundraising costs in the financial statements.

SOP 98-2

Introduction

Despite the previous efforts of the AICPA to encourage not-for-profit organizations to report joint costs properly that involve fundraising activities there still was confusion and concern that fundraising costs were incorrectly understated and program costs overstated. This can mislead a donor into believing that their dollars are going to support the organization's mission when in reality the dollars are just continuing to underwrite additional fundraising efforts.

Most recently, in 1998 the AICPA issued SOP 98-2. It requires certain criteria be met when the allocations of joint costs of activities are reported, including fundraising costs. The criteria are identified as purpose, audience, and content. If these criteria of a fundraising activity are met (as defined in SOP 98-2), shared costs that are identifiable to a particular function should be charged to that function and joint costs should be allocated between fundraising, program or administrative function.

Definitions

It may help to understand what these various types of activities mean:

Fundraising activities are activities that persuade donors or prospective donors to contribute time, talent and treasure to an organization in order to achieve its mission. When conducting fundraising campaigns, either ongoing or special events, fundraising activities include the development and maintenance of mailing lists, the development and distribution of fundraising manuals, and instructions and other materials used to publicize and promote the organization in order to solicit funding from the public, private foundations and government agencies.

Accounting for Costs of Activities (continued)

Program activities are the activities that produce and distribute the goods and services to the organization's beneficiaries, clients, customers and members in order to fulfill the organization's mission that it was created to perform. For example, a social service agency may provide overnight shelter, meals, job training and placement, GED education, etc.

Administrative activities are the functions and activities that are not identifiable to any program or fundraising activity but are required for the organization to function properly and smoothly. Administrative activities include payroll processing, accounting and record keeping, human resources and management.

Costs of joint activities are the costs incurred for a dual use, such as the cost of producing a training video for volunteers, but which is also shown to church groups in order to solicit contributions.

The following is a summarized overview of AICPA Statement of Position 98-2. It is recommended that you discuss the implications of SOP 98-2 with your fundraising and program staff, direct mail vendors as well as your accounting professional.

Importance of SOP 98-2

By applying SOP 98-2 consistently, fairly and in good faith, it helps donors and potential donors to determine if their donation to an organization is adding true value to society and/or to the mission of the organization, not just underwriting the cost of marketing efforts. It can also have costly legal ramifications for a not-for-profit organization if not applied correctly. For 501(c)(3) organizations that file Form 990, the IRS can impose financial penalties for understating fundraising costs.

If any one of the criteria of purpose, audience and content is not met, all costs of a joint activity should be charged to fundraising costs, including

those costs that would otherwise be charged to program or administrative function. Thus, determining what constitutes a joint activity and the associated costs for SOP 98-2 are an important issue.

Purpose Criterion

The purpose criterion asks the question: does the performance of the joint activity achieve the goals of either program or management functions while performing a fundraising activity?

1) The purpose criterion is not met if a majority of compensation of an employee, or fees paid to an outside consultant, is derived from the performance of any component of a specific joint activity based on contributions raised for that specific joint activity.

2) The purpose criterion is met for a program purpose if:

a) The program component of a joint cost activity calls for specific action by the donor or potential donor that will help accomplish the religious institution's mission. It must be something the donor can do to benefit himself or herself or the religious institution's mission, rather than just giving a donation, such as writing, speaking with or visiting an elected official urging them to support a matter the religious institution supports.

b) The purpose does not require a donation be made to the religious institution.

3) The purpose criterion is met for a program or administrative purpose if a similar program or administrative component is conducted without the fundraising component and does the following:

a) Both activities use the same communication method (television, direct mail, newspaper or magazine advertising); and

b) The extent of the similar program or administrative component is similar to or greater than the extent in which the program or

Accounting for Costs of Activities (continued)

administrative component is conducted with the fund raising component.

4) Tests of other evidence as they relate to items 2 and 3 above: All of the following points are to be considered to determine whether the purpose criterion is met:

a) Is the activity assessed on the amount of contributions raised or some other criterion?

b) Are the personnel doing the program activity qualified to perform that activity or is their background only in fundraising?

c) Does substantial evidence exist, such as board or committee meeting minutes or written instructions, to support the program's purpose of the joint activity?

Audience Criterion

The audience criterion asks the question: does the audience receiving the information have a reasonable need to use the program goods or services described, or a call to action to assist or promote the program service, or to use the administrative function of the organization. On the other hand, is it primarily a promotional piece to solicit contributions?

The audience criterion is met for a program purpose if it is selected because:

1) The audience has a need or potential need to use the information named by the program component in the joint activity; or

2) The capacity exists to respond and assist the religious institution in meeting the goals of the program component of the joint activity other than by contributing to the religious institution. An example of this would be a homeless service provider that sends out a mailing to a group of people from a mailing list that it has identified as supportive of the homeless problem in the geographic region it serves. The mailing asks the reader to contact the city council and urges them

to support an ordinance that would help supply affordable housing in the community.

Content Criterion

The content criterion asks the question: does the message of the information solicit the recipient to perform a specific action for the organization that is unrelated to contributing to the organization and explains the reasons and benefits of why it is important to the organization for them to act on the request.

The content criterion is satisfied for a program purpose if the joint cost activity:

1) Requires a specific action by the recipient that will help achieve the religious institution's mission;

2) Is not related to making contributions to the religious institution; and

3) Supplies descriptive information about the action and explains the need for and benefits of the action if the need for and benefits of the action is not evident.

After determining that the above criteria have been satisfied, the next step is to allocate the expenses that meet the criteria.

Allocation Method

The cost allocation methodology for distributing costs between fundraising, program or administrative functions should:

1) Be rational and systematic;

2) Be a reasonable allocation of joint costs;

3) Be applied reliably given comparable facts and circumstances.

Types of Allocation Methods

1) Physical Units Method - Develop a ratio of the number of fundraising words to programmatic words, or alternatively, the ratio of square inches of space for fundraising vs. program and administrative functions.

Accounting for Costs of Activities (continued)

2) Relative Direct Cost Method – Identify program and direct fundraising costs, develop a ratio between the two and apply it to joint costs.

3) Stand-Alone Joint Cost Method – Estimate the joint cost (i.e. paper, postage, and envelopes) to carry out each component of the joint activity separately and then allocate the costs of the joint activity based upon the ratio of costs of each separate component to the total costs of the combined components.

For further information, you can obtain a copy of SOP 98-2 from the American Institute of Certified Public Accountants online purchasing at <https://www.cpa2biz.com> and type SOP 98-2 in the search box. It is always recommended that you discuss this issue with your outside accounting professional.

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¹ Harr, D. J., *Cost Allocation in Nonprofits: Who Gets It?* Lewisville, TX: American Institute of Certified Public Accountants 2003, p. 5-2

Lee Werner graduated with a Bachelor of Science Degree in Accounting, from the University of Illinois at Chicago in 1976. He is currently completing a Master of Community Development Degree at North Park University in Chicago. He has worked as a corporate controller for most of his career. Lee has also worked in public accounting and as a controller for a faith based not-for-profit organization. Lee is involved with a number of faith-based organizations. He is married and has two children.

Comparative Guide To The Features of Nine Types of Planned Gifts

Planned Gift Types	Donor Profile	Benefits to Donor	Benefits to Nonprofit	Donor's Control
1. Revocable Gifts	Desires, needs to be able to revoke gift	Total control, ownership during life; estate tax deduction	Charitable gift at donor's death	Absolute until death; thereafter, none (except some "say" in how nonprofit manages, uses the gift assets)
2. Outright Gift	Willing, able to give all rights in asset immediately	Income, gift, and estate tax deductions; simplicity	Full ownership of gift without waiting for donor's death	Generally, none (except some "say" in how nonprofit manages, uses the gift assets)
3. Bargain Sale	Willing to let nonprofit own entire asset, but wants, needs payment for gift asset	Income, gift, and estate tax deductions; part payment for gift asset	Same as above	Same as above
4. Remainder Deed or Life Estate	Owner of farm, home who wants use of asset until death	Income, gift, and estate tax deductions; lifetime use of home, farm	Irrevocable right to own home, farm after death of tenant (usually donor)	Complete right to manage, operate during life, but no power to waste or sell without consent of nonprofit
5. Charitable Gift Annuity	Similar to bargain sale donor, but wants payment in installments, for life, and guaranteed	Income, gift, and estate tax deductions; lifetime, fixed, or annual income; guaranteed	Same as 2	Same as 2
6. Pooled Income Fund	Small to large assets; wants to keep or give lifetime income from the gift assets	Income, gift, and estate tax deductions; possible retained management; may regain or transfer trust assets at end of trust	Irrevocable payments, at least annually, for trust term	Donor can be trustee
7. Charitable Remainder Unitrust	Large assets; wants inflation hedge income for life or fixed term; may want investment control of trust	Income, gift, and estate tax deductions; lifetime income without limits; investments diversified; guaranteed	Irrevocable right to receive the fund assets attributable to the income beneficiary's share at death of beneficiary	None
8. Charitable Remainder Annuity Trust	Similar to 7, except donor desires fixed payments during trust term	Same as above, except lifetime or term income has dollar limits rather than percent limits	Same as above	Same as above
9. Charitable Lead Trust	Requires substantial income, gift, or estate tax deduction, moderately to very wealthy	Income, gift, and estate tax deductions; possible retained management; may regain or transfer trust assets at end of term	Irrevocable rights to receive the fund assets attributable to the income beneficiary's share at death of beneficiary	None

Guide To Donor Benefits of Planned Gifts

Donor Benefit	Outright Gift of Appreciated Property	Charitable Gift Annuity	Pooled Income Fund	Retained Life Estate	Charitable Lead Trust	Charitable Remainder Annuity Trust	Charitable Remainder Unitrust
Income tax deduction for gift value	X	X	X	X		X	X
Partially tax exempt income payments		X					
Capital gains tax paid over life expectancy of annuitant		X					
Avoids capital gains tax	X		X	X		X	X
Federal estate tax savings	X	X	X	X	X	X	X
Property retained by donor for lifetime				X			
Income tax deduction for income payments to charity					X		
Pays a fixed income		X				X	
Pays a variable income; potential for inflation protection			X				X
Assets returned to donors or heirs					X		

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National Catholic Development Conference Precepts of Stewardship

Introduction

Conscious of our responsibility to God and to the People of God; respectful of the directives of the Holy Father, the laws of the Church as well as the laws of the land; acknowledging the changeless principles of good stewardship in this ever-changing apostolate; anxious to elevate fund raising to the sacramentality of true charity; and mindful that our common purpose is one of uncommon service to our fellow man; WE, as members of the National Catholic Development Conference, do affirm our adherence to the following precepts:

Authority

That member organizations shall have approval of the appropriate religious authority for all fund raising and promotional activities.

Any Fund Raising or Development Office should be established by specific and formal action of the appropriate governing body of the parent or founding organization. The authorizing resolution should set forth the scope, powers, and objectives of the office to be established.

The parent organization or institution should be specifically listed in the Official Catholic Directory. The Development Office, if under a different name or location from the parent organization, should also be listed.

The Development Office should be responsible to, and should report on a regular basis, to a Board of Trustees, Executive Committee, Provincial Council or similar independent body chosen by, although not necessarily from, the parent organization. The names of this Executive Committee should be filed annually with the NCDC Office as part of the membership application or renewal.

Accountability

That sound business practice is fundamental to good stewardship. Particularly WE, as receivers of monies given in trust, have the binding obligation of full accountability in accordance with the most stringent ethical, legal, and fiscal standards.

A detailed financial statement should be provided to the governing body and appropriate religious authorities annually. An accountability statement (financial report) is available to donors and is provided to the NCDC Office annually.

A letter signed by the Director of Development should accompany this financial statement, attesting that all financial accounts and records of the Development Office have been examined, and that there has been full disclosure of all monies and all accounts receivable and payable.

Long-term investment of funds by a Development Office is not a desirable practice. Investment activities in general should be conducted at a different organizational level and one that is completely isolated from the solicitation office. Even at this higher level, any investment of funds received from the public should be of a nonspeculative nature and in full contemplation of the intention of the donors.

Development Offices as non-profit organizations should not use their preferential tax position to compete unfairly in the commercial market place. The utilization of business equipment, computers, printing presses, mailing machinery, even office space directly or by sub-lease, unless the fees charged are similar or equal to those of competitive firms offering similar services, could provide grounds for the charge of unfair competition and jeopardize the tax status of the parent or founding organizations.

National Catholic Development Conference Precepts of Stewardship (continued)**Stewardship**

That appeals be marked by a dignity of nature, a clarity of language, and a validity of purpose in harmony with the highest Christian principles, stressing the Love of God as the motivation for giving.

Consideration should always be given to avoid undue conflict with other approved appeals. It must be recognized that saturation techniques can seriously affect other approved appeals. Efforts of this nature should be subject to the ecclesiastical regulations covering a public collection of funds.

In the event items of piety, religious cards or other promotional pieces are incorporated in any appeal, they shall be in good taste, presented as gifts without obligation or constraint of payment. In the broad sense, it is not feasible to attempt to define or prohibit the use of premiums or unsolicited merchandise in the raising of funds. It is reasonable, however, to discourage this general practice and to urge that other and less objectionable methods be employed. Most particularly, the sending of blessed articles should be restrained except in such instances where the article is utilized as a means of expressing appreciation for a prior gift.

Enrollments in Mass Associations, and Purgatorial Societies, and the use of Spiritual Bouquet cards are in keeping with Catholic tradition. However, numerical emphasis on Masses and other spiritual benefits is to be avoided.

Similarity of copy, art work, and general presentation is unavoidable in our closely related field of endeavor; however, the exact reproduction or evident imitation of the material of another organization by a member should be avoided.

Techniques

That no member shall enter into any arrangement or contract involving payment in the form of a percentage or commission on funds raised.

Such an agreement may well work to the disadvantage of the religious organization in the long run and lead to many disputes between the organization and the commercial firm. An arrangement of this type ignores a fundamental truth of fund raising: in the final analysis, gifts are attracted by the merits of the organization and the people who are committed to it.

Religious organizations who seek to enter such an agreement are motivated by false assumptions about how fund raising works, who will solicit the funds, and a deep-seated certainty that there is a quick and easy way to secure the sums they require.

Ethical Statement

That great prudence should be exercised in obtaining, maintaining and utilizing lists of names and addresses of present, prospective and past benefactors. Any written request that a name be removed from a mailing list should be honored. Such lists should at all times be within the full ownership and control of the fundraising entity.

Implementation

That procedures for resolving reported instances of non-compliance have been established by the NCDC Board of Directors and shall be utilized in situations that are in conflict with these Precepts of Stewardship.

The Donor Bill of Rights

Philanthropy is based on voluntary action for the common good. It is a tradition of giving and sharing that is primary to the quality of life. To ensure that philanthropy merits the respect and trust of the general public, and that donors and prospective donors can have full confidence in the nonprofit organizations and causes they are asked to support, we declare that all donors have these rights:

- I. To be informed of the organization's mission, of the way the organization intends to use donated resources, and of its capacity to use donations effectively for their intended purposes.
- II. To be informed of the identity of those serving on the organization's governing board, and to expect the board to exercise prudent judgment in its stewardship responsibilities.
- III. To have access to the organization's most recent financial statements.
- IV. To be assured their gifts will be used for the purposes for which they were given.
- V. To receive appropriate acknowledgment and recognition.
- VI. To be assured that information about their donation is handled with respect and with confidentiality to the extent provided by law.
- VII. To expect that all relationships with individuals representing organizations of interest to the donor will be professional in nature.
- VIII. To be informed whether those seeking donations are volunteers, employees of the organization or hired solicitors.
- IX. To have the opportunity for their names to be deleted from mailing lists that an organization may intend to share.
- X. To feel free to ask questions when making a donation and to receive prompt, truthful and forthright answers.

Developed by:

American Association of Fund Raising Counsel (AAFRC)
Association of Fund Raising Professionals (AFP)
Association for Healthcare Philanthropy (AHP)
Council for Advancement and Support of Education (CASE)

Endorsed by:

Independent Sector
National Catholic Development Conference (NCDC)
National Committee on Planned Giving (NCPG)
National Council for Resource Development (NCRD)
United Way of America

Postal Regulations: Customer Support Ruling Mail Standards

U.S. Postal Service, Washington, DC - issued May 2005 - PS-323 (243.2)

This Customer Support Ruling (CSR) discusses whether “personal information” present in the mail piece of an organization authorized to mail at Nonprofit Standard Mail rates causes the piece to be ineligible for Standard Mail rates. The mailing standards in this CSR (see *Postal Bulletin* 22142, dated 11-25-04) were announced in the *Federal Register* on October 27, 2004 (69 FR62578-62583), and are effective June 1, 2005.

Mailpieces containing personal information must be entered at First-Class Mail rates unless eligible for Standard Mail or Package Services rates under the provisions of DMM 243.2* or DMM453.2*. DMM 243.2.2** provides that personal information may not be included in a Standard Mail mailpiece unless three conditions are met: the mailpiece contains explicit advertising for a product or service for sale or lease or an explicit solicitation for a donation; all of the personal information is directly related to the advertising or solicitation; and the exclusive reason for inclusion of all of the personal information is to support the advertising or solicitation in the mailpiece. As explained further under section 2, for mail within the nonprofit subclasses of Standard Mail, the term “solicitation for a donation” encompasses a request for any monetary or nonmonetary support for a nonprofit purpose of the mailer.

The remainder of this CSR elaborates on these tests, as well as the threshold question of what information in a mailpiece should be considered “personal information.” We discuss each issue in turn. The examples discussed throughout this CSR are illustrative but are not a complete list.

1. Does the mailpiece contain personal information?

Personal information consists of information specific to the addressee, other than the date of the letter; the name and address of the sender; and the name, address, and alphanumeric information that constitutes the sender’s internal routing numbers (sometimes labeled “membership,” “account,” “file,” “case,” or “control”). The following items are some examples of personal information:

- (a) The amount of the addressee’s previous contribution or contributions.
- (b) The total amount of donations by the addressee for the previous year.
- (c) The duration of the addressee’s membership (“member since 1979” or “graduating class of 1979”) or contribution history (“loyal donor since 1979”).
- (d) The expiration date of the addressee’s membership.
- (e) The birth date, occupational title, and similar personal information about the addressee.
- (f) The age, ethnicity, gender, or other demographic characteristics of the addressee, or a medical condition of the addressee or a family member.
- (g) The region, metropolitan area, or neighborhood where the addressee lives.
- (h) The addressee’s polling place, precinct, electoral district, or elected political representatives, and listings of political candidates, ballot propositions, or initiatives recommended by the sender for the precinct or other electoral district of the addressee.
- (i) The number of members or supporters of the mailer in the area where the addressee lives.

The following items are examples of information that is not considered to be personal for mail classification purposes:

- (a) Markings that qualify as “written additions” under DMM 243.2.7 or “enclosures and

Postal Regulations: Customer Support Ruling: Mail Standards (continued)

attachments” permitted under DMM 243.2.6 are not considered personal information.

(b) The name and mailing address of the addressee are not considered to be personal information. This is true whether that information, or a discrete element of the name and address, is used in the body of a letter, the heading, envelope, or any component of the mailpiece.

(c) Markings such as “Personal–Do Not Throw Away” or “Important–Open Immediately” appearing on the envelopes of a mailing are not themselves personal information.

2. Does the mailpiece advertise the sale or lease of a product or service, or solicit for a donation?

As noted above, the term “solicitation for a donation” encompasses a request for any monetary or nonmonetary support for a nonprofit purpose of the mailer. The following items are some examples of the kinds of requests for donations, purchases, leases, or other actions by the addressee that satisfy this test:

(a) A request for a new or additional donation of funds

(b) A request that the addressee join the mailer’s membership organization or renew an existing membership

(c) A request that the addressee complete and mail an opinion survey, feedback or evaluation form, petition, open letter, or note or card, e.g., “please sign the enclosed Get Well card, which we will distribute to children with cancer” or “please return this postcard to your Member of Congress”

(d) A request that the addressee contribute other services in kind to the organization (e.g., donate time as a volunteer)

(e) A request that the addressee advance a nonprofit purpose of the mailer by performing services for third persons (e.g., “please volunteer to _____” or “please pray for _____”)

(f) A request or recommendation that the addressee read literature enclosed in the mailpiece or take any other action that relates to the nonprofit purpose of the mailer. For example, a nonprofit healthcare organization might send the following solicitations:

“Because you have a new baby in your household, we ask that you read the free enclosed booklet or look at the following Web site, www.xxx.org, on how to raise a healthy child” or “Because you have a new baby in your household, you should consider the proper diet for a newborn. Our research has determined that Mickey’s Company makes excellent baby food products.”

(g) A request that the addressee buy or lease goods or services from the mailer described in the mailpiece

(h) An invitation in the mailpiece that the addressee buy or lease goods or services from the mailer, or make a donation to the mailer, by visiting a Web site referred to in the mailpiece (e.g., “See www.xyz.org to order the goods or services we are selling” or “See www.xyz.org to join xyz.”)

(i) An offer or solicitation, enclosed in a mailpiece acknowledging the payment of a contribution or membership dues, that invites the addressee to purchase goods or services available from the mailer or offered as a membership benefit through a third party (e.g. “Thank you for your donation of \$20.00 to our organization. This entitles you to a 10 percent discount on the products offered in our catalog” or “Thank you for sending in your annual dues. Membership in our organization entitles you to a 10 percent discount at Speedy’s Rent-a-Car. To take advantage of this benefit, call Speedy’s at 800-xxxxxxx and mention that you are a member.”)

(j) A request that the addressee apply to, enroll in, or contact the mailer to obtain more information about the mailer’s educational institution or program

Postal Regulations: Customer Support Ruling: Mail Standards (continued)

(k) A request that the addressee attend a seminar or event sponsored by the mailer that relates to the educational or other nonprofit purpose of the organization (e.g., a retirement seminar or a health care conference)

(l) An invitation for the addressee to contact the mailer for additional information that relates to the education or other nonprofit purpose of the organization (e.g., a catalog of courses or a list of publications)

A solicitation need not contain the exact phrases such as “please contribute,” “please purchase,” “please volunteer,” or “please read”; however, there needs to be content that indicates the action requested. This content may be located in any component of the mailpiece. For example, a reply envelope including the endorsement “additional gift” will be considered a solicitation for a donation.

The same mailpiece may contain more than one solicitation. For example, a mailpiece may contain both a request for a monetary contribution and a request that the addressee sign and return a petition for forwarding by the mailer to an elected official.

3. Is all of the personal information directly related to the advertising or solicitation?

The next step is to consider whether all of the personal information is related directly to the advertising or solicitation. This factor requires the presence of content that ties the personal information to the solicitation or advertisement. For example:

(a) The expiration date of the addressee’s membership shall be considered to be directly related to a solicitation to renew membership

(b) The addressee’s previous history with the organization, or the amount of the addressee’s past gift or gifts, shall be considered to be directly related to a solicitation for a donation (e.g., “generous

supporter,” “thank you for your donations in previous campaigns,” “loyal member since 1999”)

(c) A reference to the neighborhood, county, metropolitan area, or region of the addressee shall be considered to be directly related to a solicitation for a donation raised from or benefiting the same neighborhood, county, metropolitan area, or region

(d) Information about the addressee’s polling place, precinct, or electoral district shall be considered to be directly related to a solicitation requesting that the addressee vote at that location concerning a specific cause, candidate, ballot referendum, ballot proposition, or initiative. Information about the addressee’s elected political representatives or political candidates, or ballot propositions or initiatives, shall be considered to be directly related to a request to the addressee to support or oppose those individuals, propositions, or initiatives, or to provide support for a political cause of the mailer.

As a further note, satisfying this factor does not require the presence of the exact terms discussed in these examples, as long as there are some contents tying the personal information to the solicitation. This test will be satisfied, for example, in a mailpiece containing a solicitation for donations if the mailpiece contains (1) language indicating that the addressee has been a regular contributor or volunteer in the past (such as a reference to a past donation or that the addressee has been a “loyal,” “generous,” or “continued” supporter, or similar language), or (2) language connecting past support to the new solicitation as defined in section 2 of this Customer Support Ruling (such as a request for an “additional,” “further,” or “extra” gift or “increased” or “matching” support, or similar language).

As noted above, the personal information need not appear within the same sentence, paragraph, or component of the mailing as the solicitation.

Postal Regulations: Customer Support Ruling: Mail Standards (continued)

When a mailpiece contains more than one solicitation, the personal information need relate to only one of the solicitations.

4. Is supporting the solicitation the exclusive reason for including the personal information?

The final step is to consider whether there is any purpose for including the personal information other than to support the solicitation. If nothing in the mailpiece indicates the personal information is included for any purpose other than to solicit the addressee to support a nonprofit purpose of the mailer, all of the personal information in the mailpiece shall be regarded as having been provided solely for the purpose of enhancing the solicitation. Questions have been raised, however, about acknowledgments of prior donations that combine an acknowledgment for a donation with a solicitation for an additional donation. To provide clarity in this area, we will apply the following bright-line tests.

Mailpieces containing the following language as a description for the use of the piece, along with the amount of a prior donation, will indicate another

purpose for inclusion of the personal information and will be considered ineligible for Standard Mail rates:

- (a) "Tax Receipt"
- (b) "Receipt"
- (c) "Keep this notice as a receipt for tax purposes."
- (d) "Keep this for your records."

The following examples will not indicate another purpose for inclusion of the personal information and will not disqualify the mailpiece for entry at Nonprofit Standard Mail rates:

- (a) "Your contribution may be tax-deductible."
- (b) "No goods or services were provided in exchange for this gift."
- (c) "The IRS requires written substantiation of charitable gifts of \$250 or more," provided that nothing else in the piece indicates that it serves as such substantiation.

*See also DMM 343.2, 443.2, 363.2, 373.2, 383.2, 463.2, 473.2, and 483.2.

**This provision is effective June 1, 2005.

Sherry Freda, Manager

Guidelines for Writing a Code of Ethics/Conduct

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Companies that follow both the letter and the spirit of the law by taking a “values-based” approach to ethics and compliance will have a distinct advantage in the marketplace. Give the average employee a legalistic “thou shall not...” code, and a negative response is almost guaranteed. Give employees a document that states clearly and concisely the company’s expectations, outlines acceptable behaviors, and presents viable options for asking questions and voicing concerns, and the likelihood is much greater that they will meet those expectations and exhibit the desired behaviors. Make the contents of the code equally applicable to everyone in the organization -at all levels-and you have the key ingredient for a code that becomes cultural, with all of the benefits.

Code Basics

There is no pre-packaged verbiage for a code of ethics/conduct. Each organization must develop one to fit their specific industry and situation. However, there are some basic points to keep in mind when creating or modifying your code.

- The code language should be simple, concise and readily understood by all employees.
- The code should not be legalistic-written as “thou shall not” -but rather state expected behaviors.
- The code should apply to all employees and be global in scope.
- The code should be written, reviewed, and edited by a multidisciplinary team in order to ensure it is consistent with other corporate communications and policies, addresses all relevant risk areas, has buy-in across the company, and represents the company’s culture.
- The code should be revised and updated as appropriate, to reflect business and regulatory changes.

Recommended Elements

The elements or sections within a code of ethics/conduct can vary, but here are some standard recommendations.

- An introductory letter from the senior leadership team or CEO that sets the tone at the top and defines the importance of ethics and compliance to each employee and the company.
- The company’s mission statement, vision, values, and guiding principles that reflect the company’s commitment to ethics, integrity and quality.
- An ethical construct to assist employees in making the right choices. For example, a code might ask employees to answer some questions to guide them in making the right decision about a possible course of action. “Would you be unwilling or embarrassed to tell your family, friends or co-workers?”
- A listing of available resources for obtaining guidance and for good faith reporting of suspected misconduct. For example:
 - An anonymous reporting mechanism and/or an employee help line
 - How to contact the Ethics and Compliance Officer or Office
 - A definition of the reporting chain of command (e.g., supervisor, department head, etc.)
 - The url to an ethics and compliance Web site
- A listing of any additional ethics and compliance resources and/or the identification of supplementary policies and procedures and their location.
- Enforcement and implementation mechanisms that address the notion of accountability and discipline for unethical behavior (e.g., unethical behavior will be subject to disciplinary action up to and including termination).
- Generic examples of what constitute acceptable and unacceptable behavior could be included to

Guidelines for Writing a Code of Ethics/Conduct (continued)

further explain risk areas. Examples could be based on relevant company or industry experiences.

Areas of Risk

It is also important that a code cover all relevant and important issues or risk areas (i.e., a manufacturing company would place greater emphasis on environmental responsibilities than a professional services firm). Code content and depth of coverage on a specific topic may vary by industry, corporate objectives, or past corporate history (i.e., if a company is operating under a corporate integrity agreement or has a history of ethical violations or infractions). Content may also vary because of the regulatory environment, as well as the questions and needs of intended audience.

Potential Code Topics

The following is a list of issues, topics and risk areas that could be addressed in a company's code. The code topics can be grouped according to the company's objectives, risk matrix, or related topics such as employment practices, use of corporate assets, or third-party relationships.

- Accurate Records, Reporting & Financial Recordkeeping/ Management
- Antitrust/Competitive Information/ Fair Competition
- Bribery
- Client Service/ Relations/ Unethical or Questionable Behavior
 - Respecting client practices and property
 - Respecting intellectual property rights of others
- Client/ Supplier/Vendor/ Contractor-Related Risk
 - Acceptance and continuance
 - Risks identified during engagement: third-party illegalities, errors and irregularities
- Client/Supplier/Vendor/Contractor Confidentiality
- Communications on Behalf of Company (PR, media, speeches, articles)
- Community Activities - Civic Activity
- Compliance with Professional Standards and Related Rules
 - Independence
 - Conflicts of Interest
 - Licensure
- Conflicts of Interest
- Contracting (Approvals)
- Copyrightable Material
- Corporate Governance
- Discrimination
- Diversity
- Document Retention
- Drugs and Alcohol
- Electronic Professional Conduct
- Employment Practices (EEO) & Affirmative Action
- Environment
- Expenses Reimbursement & Time Reports
- External Inquiries/ Public Disclosure and Reporting
- Family and Personal Relationships
- Family Medical Leave Act
- Fraud
- Gifts, Entertainment, Gratuities, Favors and Other Items of Value (to/from Clients, Suppliers, Vendors, Contractors, Government Employees)
- Government Contracting
- Government Reporting, Investigations, Subpoenas and Litigation
- Harassment (Sexual and Otherwise)
- Health and Safety
- International Business & Global Business Practices
 - Antiboycott Laws
 - Embargoes
 - Export/Import Laws
 - Export Licensing
 - Foreign Corrupt Practices Act
 - Foreign Economic Boycotts
- Marketing, Sales, Advertising & Promotions
- Money Laundering

Guidelines for Writing a Code of Ethics/Conduct (continued)

- Obligations Relating to Outside Employment
- Outside Employment & Other Activities
 - Outside Businesses
 - Professional Organizations
 - Charities & Community Service
 - Fundraising
- Personal Conduct
- Political Contributions and Activity: Lobbying, Holding Office, Campaign Finance
- Privacy
- Procurement/ Purchasing
- Protecting Company Assets (Use of Company Resources)
- Intellectual Property and Proprietary and Confidential Information
- Property
- Computer and Network Security (Information Security)
- Computer Software and Hardware
- Email and Voicemail (Communications Systems)
- Internet & Intranet
- Industrial Espionage & Sabotage
- Quality
- Securities Trading & Insider Information
- Security
- Social Responsibility
- Supplier, Vendor and Contractor Relationships
- Work/Life Balance
- Workplace Violence - Firearms & Weapons

Code of Ethics/Conduct Resource Centers

Ethics Resource Center <http://www.ethics.org>

Ten Writing Tips for Creating an Effective Code of Conduct: www.ethics.org/code_writing.html

Center for Applied Ethics: www.ethics.ubc.ca

Ethics Officer Association: www.eoa.org

Creating a Code of Ethics for Your Organization: www.ethicsweb.ca/codes/

Institute for Global Ethics: www.globlethics.org

Markkula Center for Applied Ethics: www.scu.edu/ethics

Business for Social Responsibility: www.bsr.org

Ethics Codes/Values: www.bsr.org/CSRResources/IssueBriefDetail.cfm?DocumentID=50967

Institute of Business Ethics: www.ibe.org.uk

Center for the Study of Ethics in the Professions
Illinois Institute for Technology: www.iit.edu/departments/csep/codes/index.html

Ethical Corporation Magazine online: www.ethicalcorp.com

For sample Code of Ethics, see Appendix p. 96

For sample Conflict of Interest Policy, see Appendix p. 97-99

Chapter 6

Gift Acceptance Procedures

Suggested Gift Acceptance Policy Issues

Laura Fredricks

Developing Major Gifts: Turning Small Donors into Big Contributors

2001: Aspen Publishers, Inc., Gaithersburg, MD, Jones and Bartlett Publishers, Sudbury, MA. www.jbpub.com.

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It is critical to the religious institute to have a gift acceptance policy and clearly defined procedures in this regard. In preparing such a document, Ms. Fredricks suggests that the following issues be considered:

- 1) What type of gift (outright, life income, deferred, in-kind) will the organization accept?
- 2) Under what circumstances will a gift be declined?
- 3) Are there established gift levels and gift amounts for named funds/facilities/programs/services/equipment?
- 4) Who will be responsible for soliciting different gifts at different levels?
- 5) Who will be responsible for accepting different gifts at different levels?
- 6) Who will acknowledge different gifts at different levels?
- 7) How will gifts at each level be recognized?
- 8) Will cumulative gifts / past gifts be credited for larger gift levels?
- 9) How will matching gifts be recognized for overall gift levels?
- 10) How will the gifts be tracked?
- 11) What banks and financial services does the organization use to invest / manage its funds?
- 12) How does the organization invest its named funds?
- 13) What are the guidelines on how gifts are valued?
- 14) What are the minimum amounts used to establish the various planned gifts?
- 15) What are the guidelines for life income and deferred gifts, such as minimum / maximum pay out, number of beneficiaries, and term of years?
- 16) Under what circumstances will the organization serve as trustee for charitable trusts?
- 17) Will the organization require written proof before it will recognize a bequest or gift via a will?
- 18) How does the organization recognize / credit gifts that are revocable?
- 19) What are the guidelines for accepting gifts of real estate transfer, land surveys, appraisals, title search, bills, and taxes?
- 20) Who pays the costs for the real estate transfer, land surveys, appraisals, title search, bills, and taxes?

Sample Gift Acceptance Policy *(continued)*

21) Will a gift acceptance policy committee be formed to oversee and carry out the terms of the policy?

22) Under what circumstances will the organization use outside counsel?

23) Will the organization consider exceptions to the policy and, if so, under what circumstances?

24) How and under what circumstances will gift agreements be dissolved?

Since 2002, Laura Fredricks, JD, has been Vice President for Philanthropy at Pace University in New York, NY. Ms. Fredricks also teaches nonprofit business management and major gift and planned giving courses at the University of Pennsylvania, Duke University, and the Smithsonian Institute and is a featured speaker at a variety of professional conferences.

Sample Gift Acceptance Policy

This sample of a Gift Acceptance Policy is printed with the permission of the religious institute that developed the policy. It reflects attention to legal considerations as well as the development opportunities that are acceptable to this religious institute. The policy must be adapted according to the environment and needs of each religious institute. In addition to the following sample Gift Acceptance Policy, a sample Development Fund-raising Policy is found in the Appendix pp. 100-111.

Introduction

In order to respect the interests of the religious institute and the persons who support its programs, these policies are designed to assure that all gifts to or for the use of the religious institute are structured to provide maximum benefits to both parties. The goal is to encourage funding of the religious institute without encumbering the organization with gifts which may prove to generate more cost than benefit or which are restricted in a manner that is not in keeping with the mission of the religious institute. The authority to accept gifts resides with the religious institute's Board of Trustees.

To optimize funding from individuals and organizations, the religious institute must be capable of responding quickly to all gifts offered by prospective donors. It is understood that, except where stated otherwise, these policies are intended as guidelines and that flexibility must be maintained since some gift situations can be complex; and decisions can only be made after careful consideration of a number of interrelated factors. The religious institute's Board of Trustees should appoint a Gift Acceptance Committee to judge the merits of accepting certain gifts. It is recommended that the Committee consist of the religious institute's Treasurer, the religious institute's Director

of Development and several other appropriate people (perhaps an attorney, financial planner, etc.).

These policies and guidelines should in no way be understood as legal or financial advice to the donors. All donors are encouraged to seek appropriate professional advice from their legal counsels or financial planning advisors.

Outright Gifts

Cash

1. Gifts in the form of cash and checks shall be accepted regardless of amount unless, as in the case of all gifts, there is a question as to whether the donor has sufficient title to the assets or is mentally competent to legally transfer the funds as a gift to the religious institute.

2. All checks should be made payable to the religious institute and should not be made payable to an employee, agent, or volunteer representing the religious institute.

Publicly Traded Securities

Publicly traded securities or other readily marketable securities shall be accepted by the religious institute unless prohibited by its investment policy. An employee or volunteer working on behalf of the religious institute should not commit to a donor that a particular security will be held by the religious institute. If the donor wishes the security to be held, and it is not in the religious institute's portfolio, the gift acceptance committee will make the determination.

Closely Held Securities

1. Non-publicly traded securities may only be accepted after approval of the gift acceptance committee.

2. Such securities may be subsequently disposed of only with the approval of the gift acceptance committee.

Sample Gift Acceptance Policy *(continued)*

3. No commitments shall be made for the repurchase of such securities by the religious institute prior to completion of a gift of securities.

Real Property

1. No gift of real estate shall be accepted by anyone on behalf of the religious institute without prior approval of the gift acceptance committee of the religious institute.

2. No gift of real estate shall be accepted without first being appraised by a party chosen by the religious institute who shall have no business or other relationship to the donor.

3. The gift acceptance committee must determine that the title is good and marketable. It will be necessary to research any potential environmental issues and an environmental audit may be required.

4. No commercial real estate shall be accepted by anyone on behalf of the religious institute without prior approval of the gift acceptance committee.

5. Real estate shall not be accepted to fund a charitable gift annuity without seeking an opinion as to the permissibility of this action under the laws of the state or states involved and approval by the gift acceptance committee.

6. The religious institute will accept no real estate encumbered by a mortgage.

Tangible Personal Property

1. Jewelry, artwork, collections, automobiles, and other personal property may be accepted. A qualified appraisal under terms of the Internal Revenue Code governing gifts of such property must be obtained by the religious institute. Such property can only be accepted by the gift acceptance committee or such other person or persons authorized to do so by the gift acceptance committee.

2. The religious institute shall accept no personal property unless there is reason to believe the property can be reasonably disposed of. No

personal property shall be accepted that obligates the religious institute to ownership for a specified period of time. No perishable property or property which will require special facilities or security to properly safeguard it will be accepted without prior approval of the gift acceptance committee.

3. Only the gift acceptance committee or persons authorized by the gift acceptance committee to do so may represent to a donor that property will or will not be held by the religious institute for a specific period of time or for purposes related to its tax- exempt status. Donors should be notified at the time of receipt of a gift that the religious institute will, as a matter of corporate policy, cooperate fully in all matters related to IRS investigations of non-cash charitable gifts.

Other Property

Other property of any description including mortgages, notes, copyrights, royalties, easements, whether real or personal, shall only be accepted by action of the gift acceptance committee.

Appropriate inquiry shall be made and special consideration shall be given to the nature of any gift property and whether it is in keeping with the mission of the religious institute prior to the acceptance of any property by the religious institute.

Deferred Gifts*Bequests*

1. Gifts through Wills (bequests) shall be actively encouraged by the religious institute.

2. In the event of inquiry by a prospective legator, representations as to the future acceptability of property proposed to be left to the religious institute in a Will, or through any other deferred gift arrangement, shall only be made in accordance with the terms and provisions of outright gifts included in this document.

3. Gifts from the estates of deceased donors, consisting of property that is not acceptable under

Sample Gift Acceptance Policy (continued)

these guidelines, shall be rejected only by action of the gift acceptance committee. The legal counsel of the religious institute shall communicate the decision of the gift acceptance committee to the legal representative of the estate. If there is any indication that the representative of the estate, or any family member of the deceased, is dissatisfied with the decision of the gift acceptance committee, this fact should be communicated to the gift acceptance committee as quickly as possible.

4. Attempts shall be made to discover bequest expectancies wherever possible in order to reveal situations that might lead to unpleasant donor relations in the future. Where possible, intended bequests of property other than cash or marketable securities should be brought to the attention of the gift acceptance committee and every attempt be made to encourage the donor involved to conform his or her estate plans to the religious institute policy.

Charitable Remainder Trusts

1. The religious institute will not serve as sole or co-trustee of a charitable remainder trust for the benefit of the religious institute.

2. The religious institute will not recommend any corporate fiduciary to a donor.

3. The fees for management of a charitable remainder trust will not be paid by the religious institute.

4. No representations shall be made by any employee or other persons acting on behalf of the religious institute as to the manner in which charitable remainder trust assets will be managed or invested by a corporate fiduciary.

5. Charitable remainder trusts and all other deferred gifts shall be encouraged as a method of making gifts to the religious institute while retaining income which may be needed by the donor or other persons chosen by the donor. Such trusts shall not

be marketed as tax avoidance devices or as investment vehicles.

Pooled Income Funds

The religious institute will not accept pooled income funds.

Charitable Gift Annuities

1. No gift annuity shall be accepted which names an income beneficiary under 60 years of age without prior approval of the gift acceptance committee.

2. There shall not be more than two income beneficiaries for each gift annuity.

3. The minimum initial contribution for a gift annuity shall be \$5,000.

4. The minimum contribution for an additional gift annuity by an individual who has previously entered into a gift annuity agreement shall be \$5,000.

5. No deferred annuity gifts will be accepted.

6. No gift annuities will be accepted from the following states: California, Florida, Maryland, Maine, Minnesota, New Jersey, New York, North Dakota, Oregon, Washington, and Wisconsin.

Life Estate Gifts

1. Donors shall generally not be encouraged to make gifts of real property to the religious institute under which they maintain a life interest in the property.

2. Such gifts may be accepted by approval of the gift acceptance committee in situations where the asset involved appears to be a minor portion of the donor's wealth, and the committee is satisfied that there has been full disclosure to the donor of the possible future ramifications of the transaction.

Gifts of Life Insurance

1. The religious institute will encourage donors to name the religious institute to receive all or a portion of the benefits of life insurance policies which they have purchased on their lives.

Sample Gift Acceptance Policy (continued)

2. The religious institute will not agree to accept gifts from donors for the purpose of purchasing life insurance on the donor's life.

**Payment of Fees Related to Gifts
to the Religious Institute**

Finder's Fees or Commissions

1. The religious institute will pay no fee to a person as consideration for directing a gift to the religious institute.

2. No commission or finder's fee will be paid to any party in connection with the completion of a gift to the religious institute.

Professional Fees

1. The religious institute will pay reasonable fees for professional services rendered in connection with the completion of a gift to the religious institute.

2. Such fees will be paid only following discussion with and approval by the donor.

3. Fees shall be reasonable, and directly related to the completion of a gift. They shall be limited to appraisal fees by persons who are competent and qualified to appraise the property involved and who have no conflict of interest, legal fees for the preparation of documents, accounting fees incident to the transaction, and fees of "fee for service" financial planners. In the case of financial planners, such persons must state in writing that they are compensated only through fees for services rendered and that they are not compensated for the sale of products to clients. This distinction is vital in avoiding the payment of commissions which could be construed as triggering securities regulation.

4. In the case of legal, accounting and other professional fees, an attempt shall be made by the gift acceptance committee to ascertain the reasonableness of these fees prior to payment. An hourly breakdown of time should be requested. In

cases which appear excessive, the summary of fees shall be submitted to the religious institute's corporate counsel for review and approval prior to payment.

5. In cases where the persons receiving fees were initially employed by the donor and the religious institute is asked to pay the fees involved, the donor shall be notified that the payment of such fees may result in taxable income to the donor in the amount of the fees paid.

6. In situations where advisors retained by the religious institute prepare documents or render advice in any form to the religious institute and/or a donor to the religious institute, it shall be disclosed to the donor that the professional involved is in the employ of the religious institute and is not acting on behalf of the donor and that any documents or other advice rendered in the course of the relationship between the religious institute and the donor should be reviewed by counsel for the donor prior to completion of the gift.

**Restrictions on Use
and Investment of Gifts**

A. Restricted gifts will be accepted by the religious institute. In the case of current gifts prior approval of the gift acceptance committee is required. Subsequent approval by the gift acceptance committee is required in the case of gifts received after death which have not been previously approved by the gift acceptance committee.

B. Gifts donated with restrictions as to use and/or investment will be reviewed by the gift acceptance committee as to whether the gift will be accepted.

C. Restricted gifts which do not receive the approval of the gift acceptance committee will not be accepted by the religious institute.

New Tax Rules for Donated Vehicles

Susan Arvanitis, MST, CPA

The American Jobs Creation Act, signed into law in the fall of 2004, contains provisions that substantially change the rules for calculating the value of a vehicle donated to charity. Effective January 1, 2005, tax-exempt organizations (such as our Retreat Centers and Communities) that receive donated vehicles must provide donors with an entirely new set of detailed information for federal income tax purposes. These new rules apply to vehicles having a claimed value more than \$500. (For vehicles valued at \$500 or less, the existing rules still apply.)

In the past, when an individual or company donated a car to charity, the donor would estimate the value of a car donated, and simply report this amount as a charitable contribution deduction on the appropriate tax return. Sadly, the IRS and Congress concluded that this approach encouraged donors to overvalue their vehicles, while the charity later sold the car — for a much lesser value. Under the new rules, a donor's income tax deduction for a donated vehicle will likely differ, depending on whether the organization receiving the vehicle decides to sell or keep it.

Vehicle is Sold

If your Retreat Center or Community receives a donated car and decides to sell it, you must provide a written receipt or acknowledgment letter to the donor within 30 days of the date the car was sold.

This receipt must state:

- Name of donor
- Social Security Number of donor (or FEIN, if donor is a company)
- Description of vehicle (make, model, year)
- Vehicle Identification Number (VIN)
- Certification that the sale of the car was an arms length transaction between unrelated parties

- Amount received from sale of car
- Warning that the donor's charitable contribution deduction for federal income tax purposes is limited to the amount received by the organization from the sale of the car.

What is deductible?

The donor's income tax deduction is limited to the sales proceeds received by the charitable organization for the car.

Vehicle is Kept

If your Community or Retreat Center determines that the car will be kept and used by the religious, then you must provide a written receipt or letter to the donor within 30 days of the date you received the car. The receipt must state:

- Name of donor
- Social Security Number of donor (or FEIN, if donor is a company)
- Description of vehicle (make, model, year)
- Vehicle Identification Number (VIN)
- Certification as to how the organization intends to use the vehicle (e.g., in local ministry, for mission appeals, etc.) and for how long (e.g., for the remaining useful life of the vehicle, estimated at "x" years)
- Certification that the car will not be transferred in exchange for money, property or services prior to the completion of the intended use.

What is deductible?

The donor may deduct the "fair market value" of the car as of the date of donation. In this instance, it is the donor's responsibility to determine the fair market value — your tax receipt to the donor should not state a value. Donors can obtain assistance with vehicle values at the Kelly Blue Book web site, www.kbb.com.

New Tax Rules for Donated Vehicles (continued)

Note: Regardless of whether the donated car is kept or sold by the organization, the donor must attach the tax receipt/acknowledgment letter to his federal income tax return (Form 1040 for individuals).

Penalties

Organizations that fail to furnish the required tax receipt, or knowingly provide a false or fraudulent receipt, are subject to significant penalties, up to 35% of the sales price or fair market value of the donated vehicle.

For More Information

Please note that in 2004 the IRS published two guides, Publication 4302, “A Charity’s Guide to Car Donations,” and Publication 4303, “A Donor’s Guide to Car Donations.” These publications are out of date – they only apply to vehicle donations made prior to 2005. The IRS is currently working on updated versions of these publications, for posting on their web site, www.irs.gov.

For sample Tax Letters, see Appendix pp. 117-118

Susan Arvanitis, CPA is Province Controller for the Congregation of the Passion, Holy Cross Province, a men’s institute based in Chicago. Prior to joining the Congregation, she worked in the Chicago office of Deloitte & Touche LLP as a Tax Senior Manager. She has ten years of experience in public accounting providing tax consulting and compliance services to a variety of nonprofit organizations, and graduated with highest honors from University of Illinois at Urbana-Champaign with a bachelor’s degree in accounting and master’s degree in taxation.

Chapter 7

Benchmarking Rules of Thumb: Knowing How Your Results Measure Up!

Margaret Guellich, CFRE

Are we good stewards? Are our fundraising efforts effective and efficient? How do our fundraising results and the trends reflected by giving behavior measure up to our competitors?

Fundraisers commonly use benchmarking as one method of determining whether the results and trends seen in reports mirror those of other similar organizations. The information is gathered in hallways, at roundtables, during presentations, and even at meetings focused on sharing results. How solid is the information?

Examples of this information include statements such as, “you can expect a 1% response rate with a \$16 average gift in acquisition,” or “renting or exchanging your donor names (with permission, of course) does little harm to donors giving to your organization – in fact, your response rate will increase!” Others say, “premium mailings will increase response rates to 2 or 3%, but decrease the average gift to \$8 or \$10,” and “about 65% of the donors will renew annually with a annual giving worth of \$102.”

Boards (including advisory), councils, and other groups responsible for non-profits will hear these figures and question the fundraiser: how do we measure up?

Similar organizations

Effective benchmarking can take place among similar organizations with similar fundraising patterns. When selecting this type of focus group, similar missions are important, but looking for similar

donor constituency sizes and length of time in formal fundraising are also key factors. For example, religious organization A with a fifteen year-old formal acquisition fundraising program can have significantly different benchmarks than religious organization B that does acquisition in spurts. Why?

Organization A is routinely refreshing its file and adding new names. Organization B is sporadic – mailing at different times during the year, mailing different amounts, and not necessarily testing.

Organization A could very well have used all the names on selected lists over and over again. When that happens, response rates will begin to decrease dramatically and new lists need to be tested – resulting in lower overall performance. “We used to get a 1% response rate but now we are getting 0.8% - what’s wrong?” Maybe nothing is wrong. Maybe the fundraiser has been doing such a good job that the only change is looking in new directions for prospective donors.

Organization B, while not mailing acquisition routinely, could compare itself to A, but without testing consistently and mailing regularly, better than average benchmarked results could reflect ‘luck’. Lower than average benchmarked results could also reflect not having a reliable control.

Organizations with very large constituencies continue to test mailing times, packages, and lists. Although the results can offer insights into market trends, the results are specific to the organizations doing the testing. Dissimilar organizations can use that benchmarking but should really confirm those results for their own organization.

Benchmarking Rules of Thumb (continued)

How do we measure average gifts?

Donors most often make a decision to give with their hearts. However, the amount of the gift most often comes from a look at their checkbooks. “How much disposal income do I have and what do I think this particular charity should get?” It is perceived value. In acquisition mailings, one organization could have a perceived value of \$35, while another is \$8 (with a premium), and yet another \$16.

Benchmarking could reflect an average gift of \$16, but more information is needed to determine if that might be true for your organization. What package mailed? What does the organization usually receive in acquisition? What gift array was suggested on the reply form? Was there a worldwide media event that drove prospects to give more?

For renewal mailings, more questions must be answered as we benchmark. Assuming the \$102 annual giving worth of a donor means a \$51 average gift, fundraisers must know if that includes or excludes special one-time gifts. Does the \$51 average gift reflect only direct response gifts? Is there a policy in place to take the major donors out of the direct response stream, lowering the average gift? Most often large gifts are excluded from these calculations, but each organization has its own threshold. Organization A’s threshold could be \$5,000, while Organization B’s is \$500. This difference can dramatically change the organization’s average gift.

Retention and Frequency Comparisons

The following are some other comments that can be heard within the fundraising community. “We keep 65% of our donors from year to year;” and “our attrition rate is 35% but our frequency is only 1.6,” may be some frequently heard statements. Perhaps you may hear, “our frequency rate is 2.7 and we have a highly successful monthly giving program.”

Benchmarking retention and frequency rates require detailed information about an organization’s renewal program. Although the rule of thumb may be that a healthy direct response program reflects retention rates of 65% to 70% and frequency rates greater than 2, there are many subjective factors that enter the calculation.

Benchmarking Questions

1. How did your new donors come on file?
2. How many times a year does your organization mail?
3. Do you have a monthly giving program?
4. What percentage of your 0-12 month donors are in a pledge program?
5. Was there a worldwide media event that focused on your type of organization?
6. Do you have a new donor program?
7. Do you have a lapsed donor program?
8. Have you integrated mail, web and phone?

Organizations with effective new donor programs will have higher retention rates. Organizations with a high percentage of donors in a monthly giving program will have higher frequency rates. Organizations that mail more frequently, clean their donor file, and integrate fundraising media will probably have higher retention and frequency rates.

Benchmarking can help with building an organization’s strategy to increase retention and frequency, but “measuring results” between organizations with and without these strategies is like comparing apples and oranges.

Donor Conversions

Maybe you have overheard someone saying, “premiums will increase response rates to 2 or 3%, but decrease the average gift to \$8 or \$10,” or “how a donor comes on file is usually the way they give again,” or perhaps, “our organization has a strong new donor cultivation program in place.”

Benchmarking Rules of Thumb (continued)

Strategies focused on new donor cultivation and donor conversion from one type of support to another clearly increase retention and donor loyalty. Some organizations use a mix of mission appeals and premium driven appeals in order to grow the donor base. When benchmarking with such organizations, questions around new donor strategies, premium mixes, and conversion rates must be asked. Organizations investing in these strategies will naturally have higher retention rates.

Fundraising Costs

Donors frequently want to know how much of their donation goes to fundraising costs. Organizations cite anywhere from 5% and above. But how that number is calculated, as well as the organization's fundraising capability, is very important.

Some organizations receive substantial support through in-kind gifts; others received large multiple year grants – particularly from the government; still others have very high mailing volumes that drive the printing cost per thousand down considerably. Two additional facts that can drastically change an organization's fundraising costs are a strong planned giving program and the use of cost allocations.

Organizations that have marketed giving through bequests for many years are reaping the benefits today. That means revenues increase with an extraordinarily low cost. Organizations new to formal fundraising will see those benefits in 10 or 15 years.

The use of cost allocations SOP 98-2 means that organizations can allocate some of their fundraising appeal costs to education. Organizations using this method determine the number of educational lines/ paragraphs in their mailings. When benchmarking with these organizations, it is very important to know if this accounting method is used.

Using Benchmarking Effectively

Benchmarking can be a helpful tool to use when an organization is trying to see how its results compare with other similar organizations. However, even more effective steps are asking the right questions, which can build stronger strategies for donor retention, increase response rates, lift the frequency of giving, and raise the average gift.

Remember, benchmarking is not only about "measuring up to" other organizations- it is about being good stewards by using effective and efficient fundraising methods.

Margaret Guellich, CFRE, has over 25 years of fundraising experience. Margaret has worked with numerous non-profits and has experience in local, regional and national fundraising. She is currently the Senior Director of Development for American Life League.

Glossary of Development Terms

501 (c) 3 The section of the IRS code that defines non-profit, charitable, educational, religious, scientific, etc. tax-exempt organizations.

Accountability Responsibility to donors, board and legal entities that contributions are being used for the purpose requested.

Acknowledgement Letter Type of correspondence used to thank and acknowledge a donation.

Acquisition (cold prospect) The process of identifying and obtaining donors.

Administrator An entity appointed by the court to settle the estate of a person who died intestate or who is legally incompetent.

Advisory Board A group of usually influential and knowledgeable people that offers counsel and prestige to the organization or cause which it is associated, but that usually does not have any fiscal or policy authority.

Affiliation A connection or association with another organization.

Annual Fund An organized effort to obtain yearly unrestricted gifts.

Annual Plan Specific tasks to be accomplished annually in maintaining and developing support systems and structures, as well as, programs and services.

Annuity A trust that pays a fixed amount at a certain percentage usually for the donor's and/or the beneficiary's lifetime. The trust is set up through the transfer of real property.

Annuity Rate The payout percentage rate for a gift annuity. For example a 7% annuity rate will pay a \$700.00 annual income to a donor what has

contributed \$10,000. Annuity rates are recommended periodically the American Council on Gift Annuities (ACGA). Actuaries using mortality tables calculate the rates, and they are based on a donor's age at the time of their gift. Once a donor funds a gift annuity, the rate must remain fixed throughout the donor's lifetime.

Appeal Letter A request for funds to donors or prospects.

Appreciated Security A security with a market value greater than the donor's original cost basis. In simple terms: this is a stock that has gone up in value.

Appreciation 1. The increase in market value of a stock over the original cost basis. 2. Gratitude for a gift.

Artwork

Blueline (brownline, proof) A "photo" of a negative in blue with color separations from which the printer will print. Last chance for changes.

Boards The process of pasting up art/copy in preparation for printing. Includes all detail and messages to the printer in preparation for the blueline. Frequently transmitted on disks.

Camera Ready Art Art and copy proof read with screens and half tones (photos) prepared for boards.

Bleed Appearance of a color (ink) "running" to the edge of the paper.

Assessment The gathering and examination of information pertinent to a specific issue.

Attrition Losing names from an in-house file due to death, loss of interest or unrecorded new address.

Audit Objective evaluation of procedures and processes. Has a written report.

Bequeath To give or leave personal or real property by means of a Will.

Bequest A transfer, by will, of personal property such as cash, securities or other tangible property. (Intestate: to die without a will)

Bequest of a Percentage of an Estate Self-explanatory, a donor leaves a certain percentage of his or her estate to a person or organization. In these instances it is important to know the exact value of the estate, in order to have an idea about the size of the bequest.

Big Gifts Relative to the average gift of your organization ordinarily receives. May be \$100, \$500, \$1,000, \$10,000 or more.

BRE Business Return envelope with postage prepaid.

Bulk Mail A large number of letters, pamphlets, newsletters, or magazines that go via third class mail.

Capital Campaign A concentrated efforts by an organization to raise a specified sum of money to meet a specified goal within a specified period of time.

Capital Gain The difference between the cost basis of a stock, and its current increased fair market value. Capital gains are taxable to the donor when he or she sell the security; however, if the donor give the appreciated security to a charity, the donor does not have to pay the capital gains tax.

Case Statement A document that sets forth an organization's mission, needs and the reason they should be financially supported.

Cash Gift A contribution made by writing a check.

Challenge Gift A gift donated by a person made on condition that other gifts or grants will be obtained using some prescribed formula, usually a specified period of time, with the objective of encouraging others to give.

Charitable Deduction The portion of a gift to a qualified charity that is deductible from a person's or corporation's federal income tax, a person's gift tax or a person's estate tax.

Charitable Gift Annuity A gift-planning arrangement in which a donor makes an irrevocable gift cash or property to a not-for-profit organization, the donor in turn receives a lifetime income. Once the annuitant passes away, any funds left over are then available for use by the charity.

Cleaning Updating a mailing list so that all names and addresses are current and deliverable.

Communications Transmitting/exchanging information; the process of expressing ideas effectively.

Compiled Lists A mailing list put together from printed sources rather than made up of actual buyers/donors.

Comprehensive Master Plan A collaborative plan for a given outcome developed with persons/ departments responsible for its achievement.

Constituency Those who are, have been, or who might potentially be involved in your organization or with the membership of the organization.

Consultant A specialist in one or more areas of fund raising who is hired by an organization for the purpose of recommending solutions to problems and generally providing advice.

Control Package A mailing package that has performed successfully, usually in prospect mailings. Tests are performed against it.

Copy Writing being prepared for printing.

Corporation A legal entity defined by articles of incorporation which are filed in the state.

Cost Basis The cost paid to acquire an asset. The amount a donor originally paid for shares of stock he or she is considering donating.

Cost Per Dollar Raised A measure of the productivity of a fund-raising program calculated by dividing the expenses incurred in raising the funds by the total dollars raised.

Cultivation The process of developing the interest of prospective contributors through exposure to institutional people, needs and plans.

Culture The history, traditions, beliefs, values, norms and patterns of individual/group behavior that permeate and impact on the life and mission of the organization either covertly or overtly.

DTC Transfer The initials DTC stand for *Depository Trust Company*. This is a transfer system that allows for electronic movement of securities from one brokerage account to another. This system requires no physical exchange of stock certificates in order to complete a gift.

Data Base (Donor Base) A list of names and addresses with pertinent information regarding source, contributions, dates, interest, etc. usually stored in a computer program.

Decoy (Salting or Seeding) A fictitious name on the mailing list.

Deferred Charitable Gift Annuity An annuity that does not begin paying income to the annuitant until some previously agreed upon point in the future.

Deferred Gift A gift (such as a bequest, life insurance policy, charitable remainder trust, gift annuity, or polled income fund) that is committed to a charitable organization but is not available for use until some future time, usually at the death of the donor.

Development The total process of organization or institutional fund raising, frequently inclusive of public relations.

Direct Mail Persuasive appeal sent through the mail in order to obtain funds.

Direct Mail Responsive Individuals who reply through the mail either with a contribution, order or subscription.

Distribution Payment of a bequest to a beneficiary or legatee.

Donor Person, corporation or foundation that makes a charitable gift to an organization.

Donor Profile Basic information about an individual donor.

Donor Pyramid A diagrammatic description of the hierarchy of donors by size of gifts.

Electronic Funds Transfer (EFT) A process or act by which a person may authorize automatic and periodic deductions from his or her bank account to be credited to another account, as to a not-for-profit organization.

Electronic Screening The process or act of comparing an organization's database to national databases to gain address, telephone, and household information to be added to an organization's records. The process also usually involves ranking prospects by both capacity and likelihood to make gifts.

Endorsement The expression of approval and support.

Endowment An amount of money set aside for a particular purpose: to fund operational costs, to provide for a particular operation, etc. The monies are invested and only the interest earned can be sued for the intended purpose.

Enhancement Adding demographic overlays to your list.

Envelopes:

Carrier: outside envelope.

RAE: Inside return address envelope.

BRE: Inside postage paid by addressee envelope.

ARE: Inside address return envelope

Closed Faced: No window in the envelope

Window: window in envelope that shows the address

Environmental Factors Forces that are the results of events occurring external to the organization, over which the organization has little or no direct control.

Estate Everything that a person owns; a person's possessions. Usually referred to as "the estate of John O. Donor."

Estate Tax Applies to the value of all property that a tax payer possesses at death.

Executor An individual appointed by someone making his or her Will. The executor's job is to carry out the wishes established in the Will. In certain instances an executor can be appointed by the probate court, and in some states the terms

Executor's Commission Part of the administrative costs of administering a Will, the executor's commission is the amount paid out of the estate to the executor for carrying out their duties. Most states have guidelines to define what amount is appropriate to be deducted as an executor's commission. The scale is usually expressed as a percentage of the gross estate value and as the size of the estate grows, the percentage gets progressively smaller.

Expires (lapsed or inactive) Individuals who have not given to your organization within a specified period of time. Usually 18 or more months.

Feasibility Study An objective survey with selected individuals to determine their attitudes, beliefs, and commitment to an organization.

Flagging Identifying data for special attention or processing on your data base.

Foundation

Corporate The philanthropic organization established to coordinate the interest of the founding corporation.

Private An organization that is funded from a source that derives revenue from earnings on its investments, and that makes grants to other charitable organizations.

Community A publicly supported organization that makes grants. Funds are derived from many donors with interest in a particular geographic area.

Family A foundation whose funds are derived from members of a single family who usually serve as officers.

Fund Raising Plans and strategies directed toward specific individuals and groups which seek contributions to help an organization's ongoing operations, special projects, capital expansion and long term viability. Fund raising takes place through direct requests and solicitation, grant proposals and special events.

Gifts

Restricted Given for a specific purpose clearly stated by the donor.

Unrestricted A gift made unconditionally.

Gift-Acceptance Policy The rules and regulations developed by a donee organization to determine which types of gifts should or should not be accepted.

Gift-In-Kind A gift of a service or a product rather than a cash or stock gift.

Gift Table A projection of the number of gifts by size (in descending order: leadership gift, major gift, general gift) so as to achieve a particular fund-raising goal.

Giving Club or Gift Club One of the various donor categories that are grouped and recognized by a recipient organization on the basis of the level of donations

Goal Broad general statement of what is to be accomplished.

Grantor The person who creates a trust, either through their Will or other trust instrument. In the case of any of the various forms of charitable trusts, the grantor is the donor. Often the terms grantor and *trustor* are used interchangeable.

House List The donor list you own.

IRS Form 8283 The Internal Revenue Service requires that all donors making non-cash gifts, for which the donor will claim a deduction of over \$500, must include IRS Form 8283 with their tax return for the year in which they made the gift. This applies to gifts of art, collectibles, real estate, securities, etc. Your donor or their advisors may not know about the requirement and it will help cement the relationship between you and the donor if you are able to bring this to their attention. Helping them avoid potential tax problems can only be a good thing.

Image The perception held by the general public of a person, product, institution, etc.

Intestate Not having made and left a legal Will.

Irrevocable Gifts Gifts of cash and assets used to establish certain trusts, gift annuities, etc. that cannot be undone by the donor.

Joint and Survivor Annuity (also referred to as 2-Life Charitable Gift Annuity) An annuity from which two people receive the income during their lifetimes. Upon the death of one, payments continue to the other. Upon the death of the last annuitant, any leftover funds will be available for use by the charity.

Key Coding Using a code on your mailing list in order to track results.

Label

Cheshire Most common type of label usually run four across

Pressure Pull off labels sometimes affixed by machine through heat process.

Lapsed Donor Someone who gave to an organization in the past, but has not given for at least one year.

Lasering A form of printing on a response form or letter in order to personalize.

Lead Gift: The first tier gift.

Leadership Gift The second tier of gifts that inspire extraordinary giving by other donors.

Life Income Gift A gift arrangement by which a donor makes an irrevocable transfer of assets or property to a charity. The donor keeps an income interest to benefit the donor and any other beneficiary for a specified period of years, after which the remainder is distributed to the charity.

Lifetime Gifts A gift made by a donor during his or her lifetime as opposed to after death. Lifetime gifts are also referred to as *inter vivos* gifts.

Lift Note An additional appeal in the same direct mail package, usually smaller in size than the main letter and signed by someone different. Often done on post-it type notes and frequently on a different color paper and stock.

List Broker A commercial firm that buys, sells, and rents mailing lists.

List Exchange The exchange of donor lists between two organizations on a name for name basis.

List Manager One who promotes and supervises mailing list rental or exchange for list owners.

List Rental The use of another organization's list for a fee per time that represents donors, subscribers or compiled names.

Long Range Plan Definite actions to be accomplished in maintaining and developing support systems and structures, as well as programs and services in each year of a three to five year, on-going cycle.

Lybunt Fund raising jargon meaning those individuals who gave last year but unfortunately not this year.

Major Gift Prospect A person, foundation or group who fills two major qualifications: interest in the organization or the causes it promotes and the financial capability to make a substantial contribution.

Matching Gift A gift contributed on the condition that it be matched, often within a certain period of time, in accordance with a specified formula.

Memorial Gift An amount of money or assets given in honor or memory of a person.

Merge/Purge The process of merging two or more lists and eliminating duplicates.

Mission Statement A concise description of the purpose of an organization.

Mutual Fund Shares Gifts If there are 1000 mutual fund companies in existence, there will be 1000 different sets of requirements to liquidate shares. However, they all have at least two requirements in common. These include having a gifting letter sent from the donor to the company instructing them to transfer shares, and the completion of company forms that have to be signed with a signature medallion guarantee. *NOTE –these are both different than having a donor's signature notarized.

Needs Assessment The identification and prioritizing of needs and desires of those served or being served.

Nine-Ninety The IRS financial report filed by almost all non-profits.

Nixie An undeliverable piece of mail.

Objective Specific task, target date and person and/or group responsible for the task.

Organizational Chart An identification of the different grouping and positions of an organization indicating their relationship and accountability.

Outright Gift A donation in which the donor relinquishes all interest in the property donated.

Package A proposal for support incorporating a combination of gift opportunities.

Philanthropy Literally, philanthropy (the love of humanity) refers to a caring disposition which prompts individuals and organizations to give of themselves for the benefit of others.

Planned Giving A systematic effort to identify and cultivate a person (donor) for the purpose of generating a major gift. The gift is structured and integrates sound personal, financial and estate-planning concepts, always places primary emphasis on the donor's charitable intent, and gives strongest consideration possible to his or her best interests throughout the process.

Pledge A promise that is written, signed, and dated, to fulfill a commitment at some future time; specifically a financial promise payable according to terms set by the donor.

Postage

Live stamp A postage stamp affixed to the carrier.

Bulk Rate Non-first class mail which qualifies for special discounts. Has requirements as to number of pieces and format of delivery to the post office. Usually called non-profit third class bulk for 501 (C) 3 organization.

Indicia The permit to mail that has been pre-printed in the upper right corner of the envelope.

Pre-Sort Preparing the mailing to receive postal discounts.

Premium Some type of gift to the donor or prospect: labels, cards, tote bag, bookmark, pins, calendars.

Front end premiums are inserted in the outgoing mail.

Back end premiums are given after a gift is received.

Probate The court supervised process of settling an estate. During the probate process, all estate expenses are paid and all property is distributed in accordance with the person's wishes as stated in the Will.

Prospect Some individual, organization or foundation that has the potential to make a gift to an organization.

Proposal A written request or application for a gift or grant that includes why the project is needed, who will carry it out and how much it costs.

Public Relations A management function which helps establish and maintain mutual lines of communications, understanding, acceptance and cooperation between an organization and its publics.

Renewal Mailing A mailing to individuals who have already given to your organization usually within 18 months.

Residuary Bequest A bequest of what remains of a person's estate after all administrative costs have been paid, and after any specific bequests have been distributed.

Revocable Gift The person established the gift or trust can dissolve it.

Rollout A continuation of using a particular list or substantially larger portion of the list.

Specific Bequest The bequest of a particular article, designated part, or specific dollar amount of an estate.

Stewardship The proper utilization of contributions received by an organization.

Stakeholders Those individuals and/or groups who are affected by or can affect the future of the institution.

Strategic Planning A disciplined process by which the stakeholders in the organization assess, both formally and informally, the present reality and changing needs; envision possible futures and prioritize the corresponding outcomes; determine the commitment to these priorities; make fundamental decisions about its future direction; and develop long-range plans to implement the preferred future.

Stretch Gift A donation that fulfills a donor's optimum capacity to give.

Sybunt Fund raising jargon meaning those individuals who gave to you some year but unfortunately not this year.

Tax-Deductible Legally deductible in calculating income tax or estate tax. The amount a donor can deduct from their taxable income due to their making a charitable contribution.

Tax-Exempt Free from or not subject to tax. All NCDC active members organizations are tax-exempt under section 501 (c) (3) of the Internal Revenue Service Code.

Tax Statement Notification to the donor that gifts made are tax deductible to the fullest extent allowed by law.

Teaser Copy printed on the carrier to induce an individual to open the envelope.

Telemarketing Raising funds or selling products or services by telephone.

Test (usually referred to indirect mail) Analyzing the conduct of some specific part of your mailing, e.g. lists, carrier, letter, ask.

Testamentary Gift A gift made by a donor through his or her Will.

Testate Having made and left a legal Will.

Timeline The identification and arrangement of tasks in sequential order together with expected target dates for accomplishment.

Token Gift A gift considerably below the capacity of the donor.

Trends Patterns which affect mission, policies, resources, stakeholders, program, and/or services.

Trust An arrangement establishing a relationship between parties in which one person gives property to an organization or corporation to hold and manage for the benefit of one or more beneficiaries; a fiduciary relationship with respect to property, subjecting the person by whom title to the property is held to equitable duties to deal with the property for the benefit of another person.

Trust Payout Rate Charitable trusts have a legal requirement to expend a certain amount of money or a specified percentage of assets or income for a charitable purpose each year. The payout is the amount the trust is obligated to disburse.

Trustee A person or institution holding the legal title to property or monies in a trust. The trustee has the responsibility for managing the trust assets.

Update Adding new names and donor information to your list.

Vision Statement A brief compelling statement about the future that energizes the key stakeholders and captures their imagination and commitment.

White Mail: Mail that comes but the source is unknown.

Will A legally executed statement of a person's wishes about what is to be done with their property after death.

Year-End-Giving The practice of making gifts in the last few months of the calendar year in order to take advantage of tax deductions.

Glossary of Finance Terms

Accounting The reporting of the past in dollars. Accounting records business transactions after they occur. When all of these transactions are recorded, the results are compiled (added up) and summarized in what we know as financial statements.

Accounts Payable The amount the organization owes to its suppliers for products and services that it has already received, but has not yet paid for. Accounts payable is a short-term liability, meaning that it is due in less than one year; it is probably due within 30 to 60 days from the date of the balance sheet.

Accounts Receivable The amount of money that the organization is owed by its customers for products and/or services that it has provided but for which it has not yet been paid. It is a current asset, meaning that it is due in less than one year; it is probably due within 30 to 60 days of the balance sheet date.

Accrual Accounting The accounting methodology used by essentially all public corporations and almost all private companies. With this methodology, revenues are recorded when the money is earned and expenses are recorded when the resource is consumed, without regard to when cash is received or spent. The alternative methodology is doing the accounting on a cash basis. This means that revenue is recorded when the cash is received and expenses are recorded when the bills are actually paid.

Administrative Expenses What the organization spends on its support staff and the infrastructure that that support staff needs in order to contribute to the organization's success. Included in the support staff are:

- Accounting
- Legal

- Human Resources
 - Management information systems
- The supporting infrastructure includes:
- The organizational headquarters
 - Office supplies
 - The computer system

AICPA The accountants' professional organization. The initials stand for American Institute of Certified Public Accountants.

Amortization For investments, the accounting mechanism for apportioning an investment in an intangible asset over the years of its productive (useful) life. Intangibles that are amortized include copyrights, licenses, trademarks, and goodwill. Each year a commensurate share of the whole investment will be included as a noncash expense on the income statement. This concept is very similar to depreciation expense, except that depreciation is for fixed (tangible) assets.

For a loan, an arrangement whereby fixed monthly payments that include principal and interest are calculated. Each payment includes interest for the period and a sufficient amount of principal to retire the loan after the specified number of payments. A loan that is amortized over 20 years will have 240 equal monthly payments.

Asset-Based Lending Borrowing funds from a bank or other financial institution using the organization's assets as collateral for the loan. A home mortgage is a form of asset-based lending that uses real estate as collateral. Working capital loans use accounts receivable and inventory as the collateral asset.

Using assets as collateral is often the only way a smaller business can borrow from a commercial bank. It can also result in lower interest rates and fees because it reduces the lender's risk.

Assets Those resources owned by the organization. These are classified as follows:

Very liquid:

- Cash and cash equivalents
- Short-term marketable securities

Working capital:

- Accounts receivable
- Inventory

Tangible or fixed assets:

- Land
- Buildings
- Machinery and equipment
- Vehicles, furniture, and fixtures

Intangible or financial assets:

- Ownership of other companies
- Other equity or debt investments
- Copyrights
- Patents
- Trademarks
- Goodwill

Audit A review and critique of the organization's accounting system, its control procedures, and the actual accounting process by a disinterested party. The elements reviewed include the recording of events and the preparation of the financial statements. The audit process also involves gaining assurance that the numbers presented in those financial statements are reasonably accurate.

A certified audit is performed by an outside, independent CPA firm that is hired by the stockholders. Such a firm sometimes achieves these objectives by supervising people called "internal auditors." These internal auditors are employees of the organization but are supervised by the CPA firm.

Audit Opinion Letter (Certification Letter)

The letter written by the CPA firm to the board of directors that provides assurance (or creates doubt) that the audit was performed correctly and that there is a reasonable certainty that the financial statements are presented accurately.

The letter appears in the organization's annual report and should be read. It alludes to the complexities and uncertainties of the accounting process. It is often the focal point of litigation because of differing views of what it does and does not promise.

Bad Debts An expense that arises from a customer's failure to pay the amount owed to the business from a prior credit sale.

Balance Sheet (aka Statement of Financial Position) A financial statement prepared by the organization at the end of every fiscal period that presents the organization's assets, liabilities, and stockholders' equity at a point in time. The balance sheet equation is: $\text{Assets} - \text{Liabilities} = \text{Net Assets}$

Bankruptcy The unhappy experience that results from an organization's inability to pay its bills. It can be:

Involuntary, when creditors petition the court to declare the debtor insolvent

Voluntary, when the debtor organization files the petition

Under Chapter 7 (of the bankruptcy code), the court appoints a trustee with broad powers to take actions, which usually lead to the liquidation of the firm's assets and cessation of its operations.

Chapter 11 permits the organization to continue operating. The organization and its creditors will work together to try to salvage the business and their relationships. Payment schedules and settlements are negotiated, and debt is restructured. Creditors will often provide new loans and credit to the organization in the hope that it will survive and prosper.

Basis Point A finance and banking term that means 1/100 of one percent. One full percentage point equals 100 basis points. When the Federal Reserve reduces interest rates by 1/2 percent, it has reduced the rates by 50 basis points.

Bill of Lading (aka Shipping Document) The documentation that supports the shipment of products.

Billing Cycle The interval between the times that companies send out invoices. It can be as short as a day or as long as a month. Companies should examine their customers' payment practices and shorten the billing cycle if doing so will accelerate payments. This decision should also reflect the administrative costs of sending out invoices, a cost that frequently may be ignored.

Board of Directors The governing body of a corporation. It is elected by and accountable to the members. It hires the senior executives of the organization (who may also be directors) and holds them accountable for business performance and financial integrity.

Bond A debt security that is sold to the public or by private placement in order to raise funds. The maturity is usually between 5 and 30 years. The coupon rate is the stated rate of interest when the bond is issued. Corporate bonds are usually sold in units of \$1,000; a bond that is selling at its face value is said to be selling at par. The price of a bond will often fluctuate in response to market conditions during the years in which the bond is outstanding. However, the corporation is obligated to refund the full par value of the bond at maturity.

Book Value An accounting term that describes the original purchase cost of fixed assets less the accumulated depreciation charged against those assets. In this regard, *book value* and *net book value* are synonymous terms.

The term *book value* is also used to describe the stock-holders' equity section of the organization's Statement of Financial Position. The total amount of equity shown on the Statement of Financial Position divided by the number of common shares outstanding is referred to as the *book value per share*:

$$\frac{\text{Stockholders' Equity}}{\text{Common Shares Outstanding}} = \frac{\text{Book Value}}{\text{Per Share}}$$

In stock market analysis, the market price of a share of the common stock is then compared with the book value per 1 share, which is used as a benchmark to establish the "premium" at which the shares are selling.

Breakeven Analysis A financial analysis technique that involves studying the relationships among a product's selling price, variable and fixed costs, and production volume and their cumulative impact on business profitability. The specific formula is:

$$\text{Volume} = \frac{\text{Fixed Cost} + \text{Profit}}{\text{Price per Unit} - \text{Variable Cost per Unit}} \\ (\text{Contribution Margin})$$

Budget Process of estimating expenses and revenues and adopting a strategy for the coming financial period, as well as estimating the assets, liabilities, and cash flow for the forecast level of income and expenses. Actual performance during the period can be compared against budgeted goals to determine progress or lack of progress; or the budget can be used only for general planning purposes, especially regarding additional capital that will be needed for growth.

Capital A generic term that describes the total resources available to the organization. It is sometimes used to describe total assets. For example, one might say that a cash-rich organization is "well capitalized." This means that the organization has adequate resources to finance its future. An organization that is undercapitalized is one that does not have adequate resources.

Capital Assets Usually synonymous with fixed or tangible assets. This includes:

- Land
- Buildings
- Machinery and equipment
- Furniture and fixtures
- Vehicles

Capital Budget The portion of the budget process in which management focuses specifically on the organization's fixed asset needs.

Capital Expenditure The expenditure or disbursement of funds for the purpose of purchasing fixed assets.

Capital Gain The delightful experience that results from selling an asset held for more than one year at a profit. Revisions in tax laws keep the exact definition of short- and long-term capital gains changing, but the concept does not change.

Capital Lease A long-term contract in which the lessee or user of a fixed asset essentially assumes ownership, along with possession. The issues considered in deciding whether a lease is in fact a capital lease are:

- The life of the asset compared to the life of the lease
- Transfer of title

- Existence of an option to purchase the asset at a bargain price
- The total amount of lease payments compared with the market value of the asset

If the structure and terms of the lease meet certain criteria, the lessee or user may have to include the asset on the organization's balance sheet even though the organization does not technically "own" it.

Capital Stock Common stock of the organization.

Capital Structure The proportions in which the organization's assets are financed by lenders (debt) and by the corporation (equity).

Capitalization Defined as long-term debt plus net assets.

Cash Flow The overall amount of cash generated by the organization that is available to the organization to manage the business. It is sometimes also expressed as:

$$\text{Net Income} + \text{Depreciation} = \text{Cash Flow}$$

Cash Flows, Statement of A required financial statement in every annual report. It provides a summary of all cash flows generated and used, categorized as:

- Operating activities
- Investing activities
- Financing activities

Cash Management An organization's operation of the payment and collections functions. This can include short-term investing. The goal is to accelerate the receipt of cash, wisely disburse funds to the organization's advantage, and achieve interest income while minimizing administrative expenses.

Certificate of Deposit (CD) An investment security issued by a commercial or other bank. The denominations of these securities can be as little as \$1,000 or as large as millions of dollars. Companies often buy these securities as investments because they provide quite good interest income and are relatively safe. Their maturity can be as short as one month or as long as many years.

Certified Public Accountant (CPA) A person who is well trained in GAAP and related accounting matters and has passed state CPA exams. CPAs are licensed to provide audit, tax, and other accounting advisory services to companies as an independent, disinterested party.

Chart of Accounts The official designated set of accounts used by a business that constitute its *general ledger*, in which the transactions of the business are recorded. These accounts must be used, unless the chief accounting officer of the organization (the Controller) authorizes new accounts to be added to the list.

Chief Financial Officer (CFO) The top financial executive in the organization. The CFO is responsible for all treasury, controllership, and regulatory compliance functions. As the chief financial analyst for the organization, this person can be a valued business adviser to the entire management team.

Collateral Assets pledged as security for a loan. If payments are not made, the creditor can take possession of the assets and sell them to satisfy the debt. A house is collateral on a home mortgage. If there is specific collateral on a loan, the bank or other creditor is described as a *secured lender*.

Collection The process of ensuring that those who owe the organization funds for products and services that the organization provided pay in a timely manner. The process also includes processing payments received and depositing the funds in a bank rapidly.

Commercial Loan Funds borrowed from a commercial bank. Commercial loans are usually short-term, covering seasonal needs, large orders, and other temporary cash requirements.

Commercial Paper Promissory notes issued by very large, high-quality corporations. Commercial banks often purchase these investment-grade securities from their client companies in lieu of making a commercial loan. Large industrial corporations sometimes purchase these securities, as do investment companies and mutual funds. Their maturity is always short-term. Because the

buyer has a high-quality negotiable instrument, the interest rate is often below the prime rate.

Common Stock Shares of ownership in a corporation. Owners of the shares usually have the right to vote for members of the board of directors and on other issues, although some companies' stock does not have a one-share, one-vote relationship. The dollar amount of common stock shown on the balance sheet is the historical amount that the owners paid when they purchased the stock from the organization.

Compensating Balance A minimum balance that bank loan clients must maintain in their checking accounts at all times. Because not all of the amount borrowed is available to the borrowing organization, the existence of a compensating balance results in an interest rate that is considerably higher than the stated loan rate.

Consideration Something of value that is provided by a party to a contract. Consideration is an essential part of every contract; each party must provide something of value (consideration) for the contract to be valid. A very common form of consideration is cash.

Consignment Sale A method of selling products in which the vendor (the consignor) places its products on the premises of a customer entity (the consignee). Although the consignee possesses the product and must assure its safety, it remains the property of the consignor. When the product is sold to a third party, it becomes the property of that purchaser and is subject to whatever credit terms were agreed upon. This method is most common in a retail environment, especially when the product's marketability is unproven.

Contribution Margin The price of the product less the variable cost to produce it. This term is sometimes used interchangeably with the terms *gross margin* and *gross profit*. It may be expressed on a per-unit basis or be given for the entire product line in dollar or percentage terms.

Controller The chief accounting officer of a business organization. The controller may also serve as the chief financial officer, although in larger corporations the two jobs are usually split.

Convertible Securities Bonds or preferred shares issued by an organization that can be exchanged for common shares under certain terms and conditions.

Correspondent Bank A bank that serves as a depository or provides check clearing or other services for smaller commercial banks.

Cost Accounting The accounting practice of measuring the cost incurred to produce a unit of product or service by cost element - direct labor, direct materials, and supporting overhead.

Cost Allocation An accounting methodology in which a portion of overhead is charged to each unit of product that passes through the facility. The mathematical apportionment may be based on:

- Units of production or service
- Labor hours
- Amount of materials input
- Machine hours, if applicable

Cost allocation is required by GAAP accounting and is built into the standard cost system. It is also called absorption accounting. The portion of the overhead charged to each unit is often called the *burden*.

Cost of Goods Sold (COGS) The cost of producing the products or services that are delivered to customers to create revenue. In a manufacturing organization, COGS would include: Direct labor: The amounts paid to the people who actually create and assemble the product

Materials: The cost of all the inventory that goes into the product

Overhead: Some portion of the spending that supports the assembly or preparation process

Credit Department The department that qualifies and monitors the creditworthiness of customers, sends out invoices, and does the accounting for customer collections. It is usually part of the finance office.

Current Assets The assets on the balance sheet that are expected to become cash within one year from the date of that balance sheet. These assets include:

- Cash and cash equivalents

- Marketable securities
- Accounts receivable
- Inventory
- Prepaid expenses

Current liabilities The liabilities of the organization that are due within one year from the date of the balance sheet. They include:

- Accounts payable
- Bank debt
- Current portion of long-term debt

Current Portion of Long-Term Debt Liabilities that had a maturity of more than one year when the funds were originally borrowed, but that now, because of the passage of time, are due in less than one year. It is similar to the principal portion of the next twelve monthly payments on a home mortgage.

Current Ratio A measure of corporate liquidity. It is calculated as:

$$\frac{\text{Current Assets}}{\text{Current Liabilities}} = \text{Current Ratio}$$

Current Yield The rate of interest earned on the purchase price of a bond, whether or not the bond is purchased at face value. The formula is:

$$\frac{\text{Annual Interest Income}}{\text{Purchase Price of the Bond}} = \text{Current Yield}$$

Debenture A type of corporate bond secured only by the full faith and credit of the debtor organization, not by specific collateral. In a bankruptcy, holders of these bonds would be general creditors.

Debits and Credits Refer to the decreases and increases recorded in assets, liabilities owner's equity, revenue and expenses. When recording a transaction, the total of the debits must equal the total of the credits. The rules for what's a debit and what's a credit stem from the *accounting equation*. "The books are in balance," means that the sum of debit balance accounts equal the sum of credit balance accounts. Even so, accounting errors happen when transactions are not recorded or are recorded with the wrong amounts.

Debt Amortization See *Amortization*.

Debt/Equity Ratio = $\frac{\text{Long-Term Debt}}{\text{Equity}}$

This is a measure of risk for both the organization and its current and future creditors.

Debtor A person or organization that owes money to another.

Deferred Charges An asset account, sometimes part of "other assets." This is an accumulation account into which payments for future benefits are placed. These cash outlays will be converted into expenses gradually as the operations begin. Examples are start-up costs of a new business and up-front fees associated with a direct mail appeal.

Deferred Revenue A short- or long-term (or both) liability on an organization's balance sheet. It results from the organization's receiving payments in advance for services or products that have not yet been provided. The organization now "owes" that amount of services or products to its customer. This "debt" will be satisfied when those services or products are provided. For example, a magazine subscription results in deferred revenue for the publisher because the payment is received in advance; it will be converted into actual revenue as issues of the magazine are delivered.

Demand Deposit Funds on deposit in a bank that the owner of the funds can withdraw without notice. The owner of the funds may access these funds easily, usually by writing a check. A checking account in a commercial bank is a common example of a demand deposit.

Demand Loan A bank loan that has no fixed maturity. The loan must be repaid "on demand," meaning that the lender can "demand" the funds from the borrower without notice or reason.

Depreciation A noncash expense that results from the apportionment of a capital expenditure over the useful life of the asset. It is the prime example of the concept that an expense and an expenditure are not the same.

Direct Costs Those costs of producing a product or service that are absolutely essential if the product is to be made or the service to be provided.

In creating a product, the labor that makes the product and the material that becomes the product are true direct costs. Some supporting costs are also classified as direct in an organization's standard cost system.

Dividend A payment to holders of preferred and common shares. Dividends are usually a distribution of net income.

Dividend Payout Ratio The portion of net income that is paid to shareholders as a dividend.

$$\frac{\text{Dividend Payment}}{\text{Net Income}} = \text{Payout Ratio}$$

Double-entry accounting Keeping accounts for both sides of the accounting equation, that is, both the assets of a business and the sources of the assets (which are also claims on the assets of one sort or another). Every business accounts for its assets (which are reported on the left or top side of the balance sheet) and its liabilities and owners' equity (which are reported on the right or bottom side.)

Due Diligence Conceptually, ensuring that the information that was presented is true. Before making a loan, a bank does "due diligence" to make certain that the collateral (receivables, inventory, or real estate) is actually worth the stated value. In the acquisition of another organization, the buyer does due diligence to make certain that the seller's representations are accurate and that the buyer's organization is getting what it paid for. This is very similar to a home inspection before the closing.

Earnings per Share (EPS) The portion of the organization's net income that is attributable to each share of outstanding common stock. It is calculated as follows:

$$\frac{\text{Net Income} - \text{Preferred Dividends}}{\text{Common Shares Outstanding}} = \text{Earnings Per Share}$$

Electronic Payments Transfers of cash between banks that are accomplished without the actual writing of checks. Float is essentially eliminated because checks need not clear. Direct deposit of your payroll check is an excellent example of this.

Escrow Money or other property held by a disinterested party, known as an escrow agent, until

the conditions of a contract are fulfilled. The closing on a house is an escrow process, especially when funds are held for a while after the meeting because one of the parties has not satisfied all of the conditions.

FASB Financial Accounting Standards Board. A professional accounting organization that researches accounting and reporting issues and recommends revisions to accounting and reporting rules. The products of the FASB's efforts are called *FASB Bulletins*.

Federal Funds Rate Interest rate charged by banks when they lend to each other.

Federal Reserve System An independent agency of the executive branch of the U.S. government that is responsible, among other things, for regulating many activities of commercial banks. Through its monitoring of the money supply, it has vast influence on interest rates and on overall economic and business activity. The Federal Reserve System has a board of governors in Washington, D.C., and thirteen regional banks that focus on issues relating to the economies of their respective regions.

Finance Charge Interest payments on borrowed funds and the related fees for arranging the loans.

Finance Organization A private, for-profit organization that lends money to companies. It may originate those loans on behalf of banks or actually make the loans itself. These loans can then be sold to banks or other finance companies. Finance companies often function as factors.

Financial Statements The *financial statements* prepared for use by managers to help them carry out their decision-making and control. The detailed information needed in these statements is confidential and is not circulated outside the business.

I. External The financial statements included in financial reports that are distributed outside the business to stockholders and debt holders (who are entitled to a periodic accounting on the financial performance of the business).

2. Internal Although based on the same accounting methods, are prepared differently and disclose more detail, which management needs for control and decision-making.

Fiscal Year An accounting year. It may or may not coincide with the calendar year.

Fixed Assets Assets owned by the organization and used in the operation of its business that are expected to last more than one year; also called tangible assets. They include:

- Land and buildings
- Machinery and equipment
- Furniture and fixtures
- Vehicles

All of these assets except land are subject to depreciation.

Fixed Costs Costs that an organization incurs that are not directly sensitive to volume changes.

Float Funds in transit between banks. From the time a check is written and sent until the receiver deposits the check and the check clears, neither the sender nor the receiver has the use of the money. The depository bank has free use of the money until the check clears. No corporation can write a check on funds that have not yet cleared.

Footnotes That section of the annual report (or any financial statement package) that provides greater detail than the financial statements themselves. The notes describe various accounting procedures and policies, and provide considerable critical backup information necessary for understanding the financial statements.

Foreign Currency Translation Gains and losses that the company experiences on investments and debts that are denominated in foreign currency as a result of changes in the value of that foreign currency relative to the dollar.

General and Administrative Expense All the staff expenses and other supporting expenses necessary to operate the business. Among the many expenses included might be:

- Building rent
- Staff salaries

- Costs of operating the accounting and legal departments

General Ledger The summary set of accounting books that contains consolidated information on each account. The general ledger serves as the basis for the preparation of financial statements.

Generally Accepted Accounting Principles (GAAP) The general principles and rules that govern the efforts of the accounting profession. Their focus is on the way in which accounting information is prepared and reported.

Going-Concern Assumption The assumption that a business will continue in operation and will not be forced to liquidate its assets.

Gross Margin

Revenue - Cost of Goods Sold = Gross Margin
Gross margin is sometimes called, but is not necessarily always the same as, gross profit.

Income Statement (aka Statement of Activity) A report of revenues, expenses, and profit that describes an organization's performance during a fiscal period.

Indirect Costs Costs that are not attributable to a single area but support the entirety of the business.

Initial Public Offering (IPO) The first offering of an organization's common stock to the public. It requires registration with the Securities and Exchange Commission and is usually underwritten by investment bankers.

Insolvency A serious financial condition resulting from a company's inability to pay its bills. It often results in bankruptcy.

Installment Credit Loans that are repaid through fixed periodic payments of principal and interest.

Intangible Assets Assets that cannot be seen or touched but may have considerable value. Evidence of these assets may literally be only a piece of paper. Examples are investments in other companies, licenses, copyrights, and trademarks.

Interest The fee paid to a lender for funds borrowed.

Internal Revenue Service (IRS) The part of the Treasury Department of the U.S. government that is responsible for the administration and collection of taxes and the enforcement of the tax laws as prescribed by Congress.

Inventory The financial investment that the organization has made in the manufacture or production (or, in the case of a retail store, the purchase) of products that will be sold to customers.

Invoice A notification to a customer that the customer owes the organization money for products and services provided. It may contain some details of the sale and certainly should communicate a due date.

Lease A contract to obtain the use of an asset over an extended period of time. This often results in the lessee (user) owning the asset after the lease ends.

Lender A provider of loans.

Lessee The party that leases an asset from the owner, who is the lessor.

Letter of Credit A bank document issued on behalf of the buyer of a product that guarantees that the seller will be paid upon delivery of the product. This eliminates the seller's credit risk. Letters of credit are often used in international transactions. They are a form of banker's acceptance.

Letter of Intent A document, bordering on a contractual promise, that specifies certain actions that will be taken by the writer if certain conditions are met. Banks write letters of intent before they make loans, and buyers of businesses may write such a letter before entering the due diligence process.

Leverage (Financial) The use of borrowed funds to expand the organization and increase its profitability.

Lien An attachment of an asset, often used as collateral for a loan. The lien can be involuntary, resulting from a borrower's inability to pay bills.

Line of Credit Arranging for a loan in advance of the time the funds are required. This ensures that they will be available if and when they are needed. It saves interest expense because the funds are not actually borrowed until they are required.

The existence of a line of credit demonstrates the company's borrowing power and financial strength. Information about the organization's lines of credit is often found in the footnotes of a public organization's annual report.

Liquidity The ability of the organization to pay its bills on a regular basis and maintain the working capital levels necessary to support the business.

Lockbox A payment mechanism. Customers send their payments to a post office box located near the organization's bank. The bank collects the payments from the box and deposits them in the organization's checking account. The organization is then immediately notified of the deposit by the bank. This accelerates the clearing process, reduces float, and increases the organization's interest income.

Long-Term Debt Borrowed funds that are not due until more than one year from the date of the balance sheet.

Maturity Date The date on which loans are required to be repaid.

Net Assets The cumulative amount of the organization's net income that the owners have reinvested in the business during its entire corporate history.

Net Income Bottom-line profit, recorded after all costs, expenses, and taxes have been subtracted from revenue.

Net Present Value The present value of the cash inflows from an investment minus the present value of the cash outflows; a discounted cash flow measure for evaluating an investment. A positive net present value indicates that the investment opportunity being measured is more profitable than the organization's minimum ROI requirement.

Note A written agreement to repay a debt plus interest at a certain date or on demand.

Operating Lease A contract giving the lessee the use of a fixed asset for a relatively short period of time. The lessee or user assumes little or no responsibility for the asset and has no intention of buying it. Renting a car at the airport for two days is an operating lease.

Operating Margin An organization's operating income as a percentage of revenue:

$$\frac{\text{Operating Income}}{\text{Revenue}} = \text{Operating Margin \%}$$

This is a measure of an organization's operating performance. It is widely used and is an excellent measure of profit center performance.

Outsourcing Hiring outside people or another organization to accomplish work or produce product. Buying components from a supplier for in-house assembly is "outsourcing" the production of those components. Hiring a law firm, an insurance consultant, or computer software developers for specific projects are all forms of outsourcing. The organization usually gets better expertise than what it can afford internally and does not end up with unneeded employees after the project is completed.

Overhead Costs of doing business that are not directly related to creating the actual product or event. This includes all costs for the corporate staff. Conceptually, there is considerable overlap between overhead and general and administrative expenses.

Par Value A nominal or face value given to a bond or share of stock. Par for a bond is usually \$1,000. Par value for a common share is a purely arbitrary amount. It has no relation to what the price was when the shares were originally sold or to their current market value.

Performance Bond A form of insurance purchased by the party to a contract who is undertaking to do some work; it provides a guarantee to the other party that the work will be done. It offers financial assurance and protection if terms of the contract are not fulfilled.

Prepaid Expenses Expenses that are paid before the time period that will benefit. For example, insurance premiums might be paid in advance at six-month intervals. The payment is a current asset on the balance sheet. The amount paid is then amortized, with one-sixth of the amount being charged to each of the monthly periods as an expense.

Price/Earnings Ratio The relationship between the price of an organization's stock and the organization's earnings per share:

$$\frac{\text{Common Stock Price}}{\text{Earnings per Share}} = \text{Price/Earnings Ratio}$$

To the extent that the stock market is a rational business, the price/earnings ratio reflects the market's perception of the organization's future prospects for earnings growth. The higher the ratio, the more positive is the market's outlook for the stock.

Prime Rate The interest rate that commercial banks charge on loans to their largest, most creditworthy customers.

Principal The face amount of any debt, without inclusion of future interest payments.

Reserves Allowances for future negative events. Accounting requires recognition of bad news as soon as the possibility arises, but permits recognition of good news only after it actually occurs.

One example of a reserve is the allowance for bad debts.

Secured Loan Borrowing funds using specific assets as collateral for the loan. A mortgage is a secured loan because real estate is pledged as collateral. Accounts receivable financing is another form of secured loan. In a bankruptcy, a secured lender has first priority on the pledged asset to satisfy the debt before the remainder of the proceeds become available to the general (unsecured) creditors.

Securities and Exchange Commission (SEC) A U.S. government agency with oversight responsibility for the securities industry. Among its many responsibilities, it specifies the substance of

a public organization's annual report and 10K, oversees the fairness of stock trading, and monitors insiders' buying and selling of their organization's shares.

Statement of Financial Position (see Balance Sheet)

Statement of Activity (see Income Statement)

Term Loan A long-term debt; traditionally, one that has a maturity of one to five years.

Variable Costs Costs that an organization incurs that will be significantly affected by changes in production volume. For example, the number of workers necessary to produce the product will certainly be affected by how much product needs to be produced. The amount of material, components, and parts needed will fluctuate with volume on a direct cause-and-effect basis. Therefore, these are variable costs.

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Appendix

Job Description Executive Director of Development

The Executive Director (“Director”) is an enthusiastic and highly motivated leader, responsible for the overall direction and administration of the Development Office of the Congregation (“Province”). The mission of the Development Office is threefold: (1) to educate the public concerning the role of the Province in the Church and society; (2) to foster membership in the Province Family Circle and participation in its various prayer campaigns; and (3) to raise funds that help support the ministries, programs, and initiatives of the Province. The Development Office has an annual operating budget of more than \$10 million and conducts over 40 direct mail campaign appeals each year, reaching a donor base of more than 12 million households.

The Director reports to the President of the Governing Board of the Development Office. The Governing Board consists of at least five members, including the Provincial Superior and his Council. The Director is assisted by a religious moderator, who is a religious of the Province appointed by the Provincial Superior. The religious moderator generally deals with moral, theological, and pastoral matters, and approves the written content of materials sent to the public in the name of the Province. The Director also maintains regular contact with, and seeks organizational and creative direction from, an Advisory Board consisting of religious and lay members.

Responsibilities Include:

Provides creative direction for and supervises the initiation, design, development, implementation, and evaluation of all programs conducted by the Development Office. This includes:

- Design of each campaign appeal and identification of appropriate recipients in consultation with the religious moderator, Development Director, other creative staff of the Development Office, and outside vendors.
- Preparation of an annual operating and capital budgets for each fiscal year, with the assistance of the Finance Manager, subject to the review of the Province Director of Finance and final approval by the Provincial Council.
- Developing and maintaining business relationships which foster the mission and goals of the Development Office, with special care taken to exercise due diligence that all transactions with vendors and other outside parties are conducted at arm’s length and are consistent with appropriate commercial business practices.
- Authorization and execution of all vendor contracts, seeking the best price which both preserves quality standards and provides all necessary delivery and support services, with submission of

Job Description - Executive Director of Development (continued)

major vendor contracts for annual review by Province Director of Finance prior to submission of the annual budget(s).

- Submission of monthly financial reports to the President of the Governing Board, and the Province Director of Finance, prepared with the assistance of the Finance Manager.
- Conduct a continual review of Development Office policy and procedures, including human resource policies, staffing, and other matters critical to the smooth and efficient operation of the office.
- Continually analyze operating results and campaign performance, taking appropriate action to improve donor response rates and average gifts, improve profitability, and enhance success of planned giving strategies, in consultation with the Finance Manager.
- Supervise and work with the Director of Planned Giving, in consultation with the religious moderator, to develop and implement donor bonding and planned giving outreach programs, expand access to corporate/foundation grant programs, and improve overall performance in non-direct mail giving.
- Communicate regularly with the Province Director of Finance, President, and other members of the Governing Board as to results of operations, strategic plans, and other matters.
- Develop and maintain appropriate ways of communicating with the Province community, informing Province members of Development Office policies, programs, and publications.

The Director should have practical experience with and knowledge of conducting direct mail charitable appeals, as well as soliciting major gifts and developing planned giving strategies. He or she maintains knowledge of current issues and laws related to fundraising and stays current on emerging fundraising strategies. The Director is responsible for engaging legal counsel concerning any matters pertaining to the functions of the Development Office, and retains final responsibility for compliance with all federal and state laws. The Director also is proficient with a computer, able to read and interpret audited financial statements, and handles staff hiring and firing decisions. In sum, he or she daily demonstrates leadership in motivating and guiding Development Office staff in fulfilling the office's mission.

The Executive Director is an exempt full-time position working five days a week during normal business hours between 8AM and 5PM.

Education, Experience and Skills Required:

- Bachelors Degree
- Eight to fifteen years experience in nonprofit fundraising and in identifying, cultivating and soliciting major gifts
- Current CFRE certification preferred
- Thorough understanding of all areas of charitable giving, including direct mail appeals and premiums, planned giving vehicles such as bequests and charitable gift annuities, and corporate and foundation grantmaking
- Strong leadership skills and ability to foster collaborative relationships
- Experience in sound financial management practices, including budget oversight and fundraising analysis

Job Description - Executive Director of Development (continued)

- Strong creative thinking and communication skills (both verbal and written)
- Working knowledge of donor database software
- Computer proficiency with electronic mail, Internet, and office software
- Ability to suggest process improvements, and adapt to new technology

This job description is not intended to be all-inclusive of the Executive Director's job duties and responsibilities.

Job Description

Executive Director of Development - Characteristics

Characteristics/skills/qualifications

- Visionary
- Public relations and all forms of media
- Outgoing personality
- Good communication/relationship skills with benefactors, staff and Province
- Passion for learning
- Strong background in direct mail
- Good organization skills
- Education required is _____
- Certification is _____ (CFRE, etc.)
- Past experience is _____
- Sound financial practices
- Technologically adept

Responsibilities

- Implementing the Mission Statement of the Development Office
- Understanding the congregation and the new reality of America
- Marketing, promoting and delivery of programs/products/services reflective of Province's charism/mission
- Work with human resources – understanding personnel and its issues
- Development of ongoing education of office staff
- Donor bonding of current and potential benefactors
- Ability to travel
- Reporting/relating/meeting with Governing Board
- Prepare/monitor/implement budget
- Work with Province Finance Office (reporting, budgeting, etc.)
- Be an active member of professional organizations
- Network with other fundraising organizations
- Work with Development Office Advisory Board
- Expand scope of Planned Giving Department
- Develop major gifts campaign

Job Description Finance Manager

The Finance Manager is a highly motivated individual with strong financial/accounting and organizational skills who manages an operating budget of more than \$10 million, with particular emphasis on program fiscal management. The Finance Manager reports to the Chief Financial Officer of the Province and to the Executive Director of Development, and is part of the Development Office Advisory Team.

The Finance Manager has practical experience with and knowledge of non-profit accounting, financial reporting, and audit practices, as well as financial analytical skills. He/She also is proficient with a computer, has solid knowledge of various accounting software and experience with automated accounting equipment.

Responsibilities Include:

Planning and development of annual operating budget, oversight of some 40 program budgets, tracking all program expenditures, submission of monthly financial reports to the Chief Financial Officer of the Province and to the Executive Director for presentation to the Governing Board, annual audit coordination and §403(b) plan oversight. This includes:

- Overseeing and coordinating the preparation of statistics for financial statements, including the analysis and reporting of results to provide for forecasts and identify areas of improvement.
- Interpreting operating results as they affect the financial aspects of the Development Office and make recommendations to result in cost reduction and profit improvement.
- Ensuring the correct and accurate accounting classification of all expenditures and documents, assigning new account classifications as required.
- Providing advice and counsel to the Executive Director regarding the Development Office's major financial objectives.
- Working with the Executive Director to prepare and revise the campaign revenue/expense budget for each fiscal year.
- Working with the Executive Director and Development Director to oversee the issuance of campaign material purchase orders and the approval of campaign material invoices.
- Completing other duties assigned by the Executive Director.

The Finance Manager maintains knowledge of current issues and laws related to employee benefits and ensures organizational compliance in the following areas: federal and state labor laws, worker safety, and workers' compensation. He/She also manages the employee communications program related to benefits and maintains knowledge of compensation issues, trends and regulations. He/She works with the Office Manager to consult with legal counsel to ensure that human resources policies and employment procedures comply with federal and state law. They will also remain abreast of trends affecting and laws governing employment. The Finance Manager serves as the primary operational interface with local and federal government officials on financial matters.

Other duties include assisting the Planned Giving Department in completing the annual state registrations for our annuity programs, and supervising the processing of large gifts, wills, trusts and annuities.

Job Description - Finance Manager (continued)

The Finance Manager will be an exempt full-time position working five days a week during normal business hours between 8AM and 5PM.

Education, Experience and Skills Required:

- Bachelors Degree in Accounting or Finance
- Three to Seven years experience in accounting and finance, including two years of supervisory experience
- Strong verbal, written, analytical and interpersonal skills
- Thorough knowledge of accounting and tax related legislation, regulations and reporting procedures
- Thorough understanding of all accounting functional areas
- Proficiency in spreadsheet, database and word processing programs
- Ability to suggest technological ideas and improvements and adapt to new technology.

This job description is not intended to be all-inclusive of the Finance Manager's job duties and responsibilities.

Job Description ***Accounting Manager***

The Accounting Manager is a highly motivated individual with strong financial/accounting and organizational skills who performs dual roles as accounting supervisor for the Province Development Office, and as special projects accountant for the Provincial Office. This position reports to the Province Director of Finance.

The Accounting Manager has practical experience with and knowledge of non-profit accounting, financial reporting, and audit practices, as well as financial analytical skills. He/She also is proficient with computer hardware, and has solid knowledge of various software programs.

Responsibilities Include:

Supervision and review of work performed by Staff Accountant for the Development Office, including:

- Review monthly financial statements, bank reconciliations, and “Budget vs. Actual” variance reports, to ensure general ledger is accurate and current.
- Review bi-weekly payroll and annual Forms 1099.
- Coordinate annual audit.
- Plan and develop annual operating budget.
- Review results of operations and communicate them to management.
- Evaluate program v. fundraising costs of various campaigns.
- Perform other tasks and analyses as requested by the Executive Director, Province Director of Finance, or Province Controller.

In addition, the Accounting Manager will be responsible for several special accounting projects, as assigned, for the Provincial Office. Examples include:

- Prepare cash flow projections.
- Develop accounting procedure manuals and internal control documentation.
- Assist with financial statement consolidation.
- Update reporting for investments and property, plant and equipment.
- Assist with annual state registrations for charitable gift annuities.
- Evaluate various public assistance programs for religious.
- Perform other projects as requested by the Executive Director, Province Director of Finance, or Province Controller.

The Accounting Manager will be an exempt full-time position working five days a week during normal business hours between 8AM and 5PM. This individual will be required to split their time between the Development Office and the Provincial Office on an approximate 50/50 basis. At certain times of the year, work hours may be shifted from one office to the other in order to meet deadlines.

Education, Experience and Skills Required:

- Bachelors Degree in Accounting or Finance
- Three to seven years experience in accounting and finance, including two years of supervisory experience

Job Description - Accounting Manager (continued)

- Strong verbal, written, analytical and interpersonal skills
- Thorough knowledge of accounting and tax related legislation, regulations and reporting procedures
- Thorough understanding of all accounting functional areas
- Proficiency in spreadsheet, database, accounting and word processing programs
- Excellent organizational skills and ability to prioritize
- Ability to implement new technology
- Must have own vehicle, hold a valid driver's license and vehicle insurance

Job Description Controller Duties

Projects

- Prepare accounting manual of policies and procedures
- Update Data Pro manual
- Help with installation of new accounting software configuration

Monthly

- Review communities/ retreat centers financial statements monthly for completeness and accuracy
- Review Dr/Cr memos to be reimbursed
- Prepare payroll input
- Review monthly Provincial Office financial statements

Weekly

- Review invoices to be paid

Annually

- Work with Development Office to prepare state annuity filings
- Help with audit - PPO and Consolidations
- Assist in budgeting/planning/forecasting

Ongoing

- Be a resource to answer questions
- Other duties as assigned

Job Description Finance Office Manager

Reports to: Operations Administrator

Function:

Responsibilities include, but are not limited to:

Makes daily verbal and written contact with banking institutions, Religious Communities Trust, and Sisters; maintains Sisters' accounts; supervises processing of general ledger, general and medical payables, cash receipts, and tax returns; and compiles and monitors local house budgets. Responsible for Sisters Database. Enters and manipulates numerical data using spreadsheet program, database program and computerized accounting programs (Great Plains, Excel, Word, Access, FRX, Peachtree Fixed Asset, Income Tax Software).

Responsibilities:

- Supervises processing of deposits and cash receipts entries into the general ledger, reviewing and analyzing Sisters cash receipts to ensure actual receipts match service agreements and that all payments are received. Corresponds with Sisters/employers as needed to maintain cash flow. Provides general ledger accountant with information needed for journal entries.
 - Supervises processing of general and medical payables, the general ledger, fixed assets of all funds. Maintains an appropriate organizational structure and assures competent staff to perform the functions and services of general ledger, payables, cash receipts, and data entry for RCT accounts; hires, evaluates and terminates personnel.
 - Supervises the annual budgeting process for local houses and prepares department budgets. Assists in developing house budget forms and instructions. Provides general ledger accountant with information needed for maintaining proper account balances.
 - Opens/maintains/closes checking accounts as needed by the local houses. Completes applications for ATM and credit cards. Reviews credit card reports and follows up as necessary with Banks, Sisters, and/or Operations Administrator/General Council.
 - Responsible for deposits, journal entries, monthly analysis and budget control of Sisters' House accounts. Provides general accountant with information needed for journal entries.
 - Oversees maintenance and updating of Social Security and Supplemental Security Income and Medicaid records. Assists Sisters in application for and ongoing correspondence with these agencies. Assists in development of educational materials for governmental benefits. Maintains FICA list and calculates perquisites.
 - Oversees HUD applications and letters.
 - Balances and replenishes petty cash funds.
 - Maintains and develops bursar's and accounting manuals.
 - Recommends changes in financial policy and procedures as necessary.
 - Plans and carries out assignments and projects designated by Operations Administrator.
- Responsible for interpretation of accounting spreadsheet and report development as requested by the Operations Administrator. Analyzes results and recommends changes. Develops and proposes new methods, criteria and policies.

Job Description - Finance Office Manager (continued)

- Oversees the maintenance of data and preparation of 1099's annually.
- Monitors established internal controls to assure proper compliance.
- Responsible for learning Finance Office software and serving as a resource for others using this software.
- Oversees tax preparation and sisters' charitable contribution letters process. Reviews tax returns, as needed. Prepares corporation tax returns.
- Oversees compiling of Sisters' wage/Social Security / SSI / Pension data needed for Charitable Trust report. Assists Operation Administrator in Charitable Trust Computations, as requested.
- Reviews labor distributions for monthly review of financials for auditing purposes. Assists Human Resources Director by reviewing payroll and pension data for submission to actuary.
- Responsible for Sisters Database. Oversees updating and maintaining of data. Designs tables/queries/reports as needed. Provides information for directory updates and to meet other requests.
- Works with Operations Administrator and Facilities Office on inventory database. Designs tables, queries, forms, and reports as needed.
- Computes Sales tax and prepares monthly report to the State. Process request for check.
- Primary accountant for ministry companies. Prepares and distributes monthly financial reports. Prepares wage and Income tax calculations, and files returns, as appropriate.
- Works with other department heads to ascertain and meet financial reporting, internal control, and processing needs.
- Works with Operations Administrator to convert manual systems to electronic systems.
- Special projects as requested by Sisters, Operations Administrator and General Council.

Education:

Minimally Bachelor's degree in business management and/or accounting or equivalent experience.

Experience:

Three to five years experience in accounting. Experience teaching others accounting policies and procedures. Previous experience in: supervising; banking policies and procedures; financial reporting; calculator; and computerized accounting system experience. Computer experience with accounting software, word processing, spreadsheets, DOS/Windows, electronic files, and database. Knowledge of basic principles, concepts and methodology of accounts payable and general accounting, income and sales tax returns, data bases and 1099 preparation. Previous experience reviewing payroll preferred.

Physical Demands: Position is sedentary. Must be able to enter information into a computer.

Exposure to Confidential Information:

Maintains confidentiality in regards to all information about Sisters personal funds and the Congregation's financial information.

Job Description - Finance Office Manager (continued)

Mental and/or Visual Demands:

Requires independent decision making and judgement. Must be able to prioritize and coordinate work with others. Ability to handle sensitive and stressful situations. Establishes criteria and assesses accounting program objectives as well as reviewing and interpreting of financial data. Ability to design databases and generate reports from database information.

Work Conditions: Non-smoking work environment.

Job Hazards:

Everyday risks or discomforts in an office environment which require normal safety precautions.

Initiative:

Must have good problem solving skills. Must use good judgement in interpreting and adapting guidelines. Refines methods and techniques used to process payables, cash receipts, general ledger accounting, Sisters checking accounts and Sisters Database. Plans and carries out assignments independently.

Interpersonal Skills:

Ability to work on a one-to-one basis and as a member of a team. Ability to relate and communicate to several different publics on a one-to-one basis. Contacts are made on a routine basis in a moderately structured setting. Requires good written and verbal communication skills. Contacts are established to coordinate, plan, advise, influence or resolve problems towards desired outcomes or compliance with established policies.

Responsibility for Money:

Oversees cash receipts and disbursements, general accounting and petty cash funds (up to \$600.00).

Supervision of Others:

General Accountant, Accounting Assistant Payables, Accounting Clerks and Sister volunteers.

Other Factors Applicable to Job Performance:

Must have respect for the Congregation's Mission statement.

Job Description ***Administrative Assistant***

Reports to: Operations Administrator

Function:

Maintains and updates various databases. Produces forms and reports from these database.

Prepares letters, memorandums. Uses various software to accomplish assignments.

Magazine subscription ordering and tracking for various departments.

Requires data entry using Blackbaud, Word, Excel and Great Plains.

Responsibilities:

- Types letters, envelopes, labels, memorandums and various documents from handwritten, file, audiotape and e-mail format. Edits, proofreads and spell-checks same. Professional and accurate annual Social Security/Patrimony/SSI statements to sisters documents are prepared in a timely manner.

- Keeps databases up-to-date and current. Provides reports, census, and other requested materials. Has extended knowledge of various database software.

Database is current and accurate.

Projects requiring data from database are accurate, professional and timely.

- Operation of office equipment.

Basic to advanced knowledge of the functioning of basic office business machines.

- Orders and tracks publications and subscriptions.

Confirms receipt of publications ordered, tracks significant information, verifies renewal dates and renews as required. Corresponds with publishers as necessary.

- Responsibilities Related to Fund Development Offices

- Records contributions, generates standard letters and tax receipts

- Receives and processes information from on-line contributions

- Tracks contributions and maintains accurate constituent records

- Maintains, updates, and prepares mailing lists and mailing labels

- Provides listings of contributors as requested

- Provides constituent records and various data when requested

- Maintains accurate records, tracks contributions according to fund and appeal, produces reports as scheduled and when requested

- Provides various analytical and comparative reports according to schedule and as requested

- Provides monthly record of contributions

- Prepares individual letters as requested

- Reconciles contribution records with finance office, monthly and yearly

- Collects all raw data relevant to contributions

- Tracks pledge payments and sends pledge reminders

- Maintains separate contribution records for Community Development Office and Corporate Development Office

Job Description - Administrative Assistant (continued)

- Provides data, information, consultation, and advice regarding procedures and practices to improve analytical functions, donor cultivation practices, constituent tracking, procedures for marketing and publicity, contribution forms, website forms, and other activities to enhance the fund raising efforts of the Order and Corporate Development Offices
- Chapel Tax end of year – provides tax letters to Chapel
- General:
 - Enters data for Sisters' house accounts, reviews for accuracy and reasonableness and prints appropriate reports for each account. Reports are reviewed by supervisor for soundness, accuracy and appropriateness.
 - Quarterly, compares custodial and investment manager reports of cost and units of securities, noting differences.
 - Sends checking statements to receptionist for sorting by house account and check #.
 - Logs receipt of all checking account statements. Inserts adjustments/ATM information into appropriate envelopes.
 - Maintains Finance Office procedural manual.
 - Prepares Sister HUD letters

Job Description Database Specialist

Education: High school diploma required, specialized database training preferred

Experience:

Minimum two (2) years office experience preferred. Working knowledge of Microsoft applications. Experience in database management, copy machine operation and basic office procedures and business practices.

Physical Demands:

This position is primarily sedentary. Must be able to sit for long periods. Requires some standing and walking. Must be able to type.

Exposure to Confidential Information:

This position entails handling of routine, sensitive and confidential material and telephone calls.

Mental and/or Visual Demands:

Requires an ability to follow directions. Uses good judgment in locating and selecting appropriate guidelines, references, and procedures to carry out assignments. Routine reading of typewritten and handwritten material. Good attention to detail. Needs to be able to make decisions quickly. Requires the ability to read and write in English.

Other Demands: As requested by supervisor.

Working Conditions: Standard non-smoking office environment.

Job Hazards:

The work environment involves everyday risks or discomforts which require normal safety precautions within an office setting.

Initiative:

Carries out recurring assignments independently, referring deviations or problems to the supervisor. These assignments involve duties with related steps, processes or methods. The chosen course of action requires the employee to recognize the existence of and differences among a few easily recognizable situations. The work product affects the accuracy, reliability, or acceptability of further processes or services. Must be able to meet strict timelines, prioritize projects and follow through to conclusion.

Interpersonal Skills:

Must be courteous and professional, and demonstrate a mature attitude. Has personal contacts with members of the same agency and the public. Must possess good verbal and written communication skills. Must be able to understand and be understood by others.

Responsibility for Money: None.

Supervision of Employees: None.

Other Factors:

Needs to be flexible and able to function well in pressure situations. Needs to be self-directed in slow times.

Code of Ethics Sample

ABC's mission includes significant efforts to promote ethical conduct in the practice of financial management throughout the world. Senior financial officers hold an important and elevated role in corporate governance. While members of the management team, they are uniquely capable and empowered to ensure that all stakeholders' interests are appropriately balanced, protected, and preserved. This Code provides principles to which members are expected to adhere and advocate. They embody rules regarding individual and peer responsibilities, as well as responsibilities to employers, the public, and other stakeholders. Violations of ABC's Code of Ethics may subject the member to censure, suspension, or expulsion under procedural rules adopted by ABC's Board of Directors.

All members of ABC will:

1. Act with honesty and integrity, avoiding actual or apparent conflicts of interest in personal and professional relationships
2. Provide constituents with information that is accurate, complete, objective, relevant, timely, and understandable
3. Comply with applicable rules and regulations of federal, state, provincial, and local governments, and other appropriate private and public regulatory agencies
4. Act in good faith, responsibly, with due care, competence and diligence, without misrepresenting material facts or allowing one's independent judgment to be subordinated
5. Respect the confidentiality of information acquired in the course of one's work except when authorized or otherwise legally obligated to disclose. Confidential information acquired in the course of one's work will not be used for personal advantage
6. Share knowledge and maintain skills important and relevant to constituents' needs
7. Proactively promote ethical behavior as a responsible partner among peers, in the work environment and the community
8. Achieve responsible use of and control over all assets and resources employed or entrusted
9. Report known or suspected violations of this Code in accordance with the ABC Rules of Procedure
10. Be accountable for adhering to this Code

Conflict of Interest Policy Recommended by IRS

Article I Purpose

The purpose of the conflict of interest is to protect this tax-exempt organization's (Organization) interest when it is contemplating entering into a transaction or arrangement that might benefit the private interest of an officer or director of the Organization or might result in a possible excess benefit transaction. This policy is intended to supplement but not replace any applicable state and federal laws governing conflict of interest applicable to nonprofit and charitable organizations.

Article II Definitions

1. Interested Person

Any director, principal officer, or member of a committee with governing board delegated powers, who has a direct or indirect financial interest, as defined below, is an interested person.

2. Financial Interest

A person has a financial interest if the person has, directly or indirectly, through business, investment, or family:

- a. An ownership or investment interest in any entity with which the Organization has a transaction or arrangement,
- b. A compensation arrangement with the Organization or with any entity or individual with which the Organization has a transaction or arrangement, or
- c. A potential ownership or investment interest in, or compensation arrangement with, any entity or individual with which the Organization is negotiating a transaction or arrangement.

Compensation includes direct and indirect remuneration as well as gifts or favors that are not insubstantial.

A financial interest is not necessarily a conflict of interest. Under Article III, Section 2, a person who has a financial interest may have a conflict of interest only if the appropriate governing board or committee decides that a conflict of interest exists.

Article III Procedures

1. Duty to Disclose

In connection with any actual or possible conflict of interest, an interested person must disclose all material facts to the directors and members of committees with governing board delegated powers considering the proposed transaction or arrangement.

2. Determining Whether a Conflict of Interest Exists

After disclosure of the financial interest and all material facts, and after any discussion with the interested person, he/she shall leave the governing board or committee meeting while the determination of a conflict of interest is discussed and voted upon. The remaining board or committee shall decide if a conflict of interest exists.

Conflict of Interest Policy (continued)

3. Procedures for Addressing the Conflict of Interest

- a. An interested person may make a presentation at the governing board or committee meeting, but after the presentation, he/she shall leave the meeting during the discussion of, and the vote on, the transaction or arrangement involving the possible conflict of interest.
- b. The chairperson of the governing board or committee shall, if appropriate, appoint a disinterested person or committee to investigate alternatives to the proposed transaction or arrangement.
- c. After exercising due diligence, the governing board or committee shall determine whether the Organization can obtain with reasonable efforts a more advantageous transaction or arrangement from a person or entity that would not give rise to a conflict of interest.
- d. If a more advantageous transaction or arrangement is not reasonably possible under circumstances not producing a conflict of interest, the governing board or committee shall determine by a majority vote of the disinterested directors whether the transaction or arrangements is in the Organization's best interest, for its own benefit, and whether it is fair and reasonable. In conformity with the above determination it shall make its decision as to whether to enter into the transaction or arrangement.

4. Violations of the Conflicts of Interest Policy

- a. If the governing board or committee has reasonable cause to believe a member has failed to disclose actual or possible conflicts of interest, it shall inform the member of the basis for such belief and afford the member an opportunity to explain the alleged failure to disclose.
- b. If, after hearing the member's response and making further investigation as warranted by the circumstances, the governing board or committee determines the member has failed to disclose an actual or possible conflict of interest, it shall take appropriate disciplinary and corrective action.

Article IV

Records of Proceedings

The minutes of the governing board and all committees with board delegated powers shall contain:

- a. The names of the persons who disclosed or otherwise were found to have a financial interest in connection with an actual or possible conflict of interest, the nature of the financial interest, any action taken to determine whether a conflict of interest was present, and the governing board's or committee's decision as to whether a conflict of interest in fact existed.
- b. The names of the persons who were present for discussions and votes relating to the transaction or arrangement, and a record of any votes taken in connection with the proceedings.

Article V

Compensation

- a. A voting member of the governing board who receives compensation, directly or indirectly, from the Organization for services is precluded from voting on matters pertaining to that member's compensation.

Conflict of Interest Policy (continued)

- b. A voting member of any committee whose jurisdiction includes compensation matters and who receives compensation, directly or indirectly, from the Organization for service is precluded from voting on matters pertaining to that member's compensation.
- c. No voting member of the governing board or any committee whose jurisdiction includes compensation matters and who receives compensation, directly or indirectly, from the Organization, either individually or collectively, is prohibited from providing information to any committee regarding compensation.

Article VI
Annual Statements

Each director, principal officer and member of a committee with governing board delegated powers shall annually sign a statement which affirms such person:

- a. Has received a copy of the conflict of interest policy,
- b. Has read and understands the policy,
- c. Has agreed to comply with the policy, and
- d. Understands the Organization is charitable and in order to maintain its federal tax exemption it must engage primarily in activities which accomplish one or more of its tax-exempt purposes.

Article VII
Periodic Reviews

To ensure the Organization operates in a manner consistent with charitable purposes and does not engage in activities that could jeopardize its tax-exempt status, periodic reviews shall be conducted. The periodic reviews shall, at a minimum, include the following subjects:

- a. Whether compensation arrangements and benefits are reasonable, based on competent survey information, and the result of arm's length bargaining.
- b. Whether partnerships, joint ventures, and arrangements with management organizations conform to the Organization's written policies, are properly recorded, reflect reasonable investment or payments for goods and services, further charitable purposes and do not result in inurement, impermissible private benefit or in an excess benefit transaction.

Article VIII
Use of Outside Experts

When conducting the periodic reviews as provided for in Article VII, the Organization may, but need not, use outside advisors. If outside experts are used, their use shall not relieve the governing board of its responsibility for ensuring periodic reviews are conducted.

Adopted by the Board of Directors

President _____

Secretary _____

On _____

Sample Development Fundraising Policy

This statement of policy is intended to provide a guideline for the operation of the fund raising function of the ABC Development Office. Its parameters include the research, cultivation, solicitation, record-keeping and acknowledgment of gifts for ABC School.

It is the purpose of this statement of policy to establish consistent procedures for acceptable fund raising practices. These policies are intended to provide guidelines for gift planning decisions, yet allow adequate flexibility in extenuating circumstances.

Authorized Fund Raising Representatives

All ABC-sponsored fund raising endeavors shall be approved by the Headmaster. Only those professional staff and trained volunteers approved by the Headmaster shall engage in actual solicitation on behalf of the School and any of its programs.

The Development Department will be notified of all individuals, companies and foundations being approached by staff or volunteers in order that these efforts may be coordinated. The Development Department will also receive or be notified of the receipt of all gifts of any type to ABC School. All major fund raising campaigns shall be approved in advance by the Development Committee and the Board of Trustees.

Legal and Ethical Considerations

All gifts shall be acquired in compliance with the regulations set forth by the Internal Revenue Code and the laws of the State of California. ABC shall not accept any gift which would improperly benefit any individual or in a manner that would jeopardize the tax exempt status of the School.

Representatives of ABC, to the best of their ability, shall always be certain that the donor's financial well being will not be jeopardized by a gift transaction. Donors will be urged to review their proposed giving interest with their professional advisors. No representative of ABC shall engage in estate planning on behalf of the donor. ABC will not pay on a commission basis in fund raising endeavors. Information about donors, donors' family and financial circumstances shall be kept in strictest confidence. ABC fund raising practices shall comply with the generally accepted standards of CASE and the National Society of Fund Raising Executives code of ethics and professional practices. Copies of these documents are on file in the Development Department.

Prospective donors shall be advised to consult their attorney in all matters related to deferred gift agreements such as bequests, trusts, annuities or other contractual arrangements. If a representative of ABC makes a referral to any attorney, it shall be understood that the attorney is retained to represent the donor's interest and the donor bears the cost of that legal service. When recommending legal counsel, representatives of the School shall suggest at least three names. The donor shall be advised to consult with his/her own attorney and/or accountant on matters related to tax implications and estate planning aspects of a deferred gift agreement.

The Director of Development, in conjunction with ABC's legal counsel, may provide sample agreements which could be used as guides for prospective donors and their counselors.

Sample Development Fundraising Policy (continued)

ABC School will not draft a donor's will or codicil. However, if requested, ABC may suggest language pertinent to a bequest, trust or other gift documents to be submitted to the donor's attorney as a basis for consultation with the donor.

Sources of Gifts

In addition to outright gifts of cash, including foundation grants, matching gifts, income from lead trusts and family trusts, real property, and tangible and intangible personal property, ABC shall encourage gifts of a deferred nature as well.

Appropriate ABC constituents shall be informed that they may arrange gifts through their wills, life insurance, retirement plans, revocable living trusts, life estates, charitable remainder trusts, charitable lead trusts and pooled income funds.

Donor Classifications

For record-keeping purposes, each donor is classified on the basis of a primary relationship with ABC School. Where an individual donor has more than one classification the following priorities will be followed in recording gifts.

1. Board of Trustees
2. Faculty/Staff
3. Parent
4. Alumni
5. Grandparent
6. Parent of Alumni
7. Friend
8. Foundation
9. Business

The classification of the individual or organization that finally transfers the gift or grant determines the donor source under which it is recorded.

In cases where a contribution passes through several entities — such as from an individual to an organization, or from one organization to another organization to an institution — the last of the entities to control and direct the gift to ABC shall be cited as its source. Example: A gift from a personal foundation should be identified as coming from the Foundation rather than the individual. Matching gifts paid by an organization will be recorded as a donation from that company, not as a donation from the individual who made the original gift. However, the individual's donor level will reflect the additional gift he or she generated for the School.

Record Keeping Terminology*Terms Related to ABC Budget*

1. Budgeted. Represents anticipated revenue or expenditures. Expenditures for the year are based on anticipated revenues. Unrestricted gifts and designated gifts are a part of budgeted income.
2. Unbudgeted. Represents unanticipated revenue or expenditures. Donations made by donors for a specific purpose outside the budget will be considered restricted gifts.

Sample Development Fundraising Policy (continued)

3. Capital Purposes. Funds designated for plant fund accounts or retirement of indebtedness (except working capital line of credit loans).
4. Endowment. Funds which are to remain intact, separately invested with only a portion of the interest generated used to offset operating expenses.
5. Operating Budget. The category of all budget-controlled revenue and expenditures for current or day-to-day operations. All gifts received without donor restrictions are credited to the operating fund.
6. Gift Income. Donations to the School in a given reporting period.
7. Current Operating Budget. ABC operates on a trailing year basis. Gifts given in the previous year are applied to the current operating budget. However, it also includes gifts given specifically for current operations and also those designated to a specific current use, such as maintenance costs, a particular department or specific classroom needs.

Terms Related to Donors' Wishes

1. Restricted Gift. Represents gifts which the donor specifies for a purpose not included in the budget.
2. Designated Gift. Specific gifts to underwrite expenditures in the Operating Budget.
3. Unrestricted Gift. Gift or grant unconditionally received from the donor. These are all considered Operating Fund income unless otherwise designated by the Board of Trustees.

Procedures for Outright Gifts of Real Property and Tangible and Intangible Personal Property

Property Gifts

1. Publicly Traded Securities
 - a. Securities which are traded on the New York or American Stock Exchanges, NASDAQ, and other publicly traded securities shall be accepted.
2. Non-Publicly Traded Securities
 - a. Non-publicly traded securities may only be accepted after approval of the Finance Committee of the Board of Trustees.
 - b. Such securities may be subsequently disposed of only with the approval of the Finance Committee
3. Real Property
 - a. No gift of residential or commercial real estate shall be accepted without prior approval of the Finance Committee.
 - b. No gift of real estate shall be accepted without first being appraised by a party chosen by ABC who shall have no business or other relationship to the donor.
 - c. Special attention shall be given to the receipt of real estate encumbered by a mortgage, as the ownership of such property may give rise to unrelated business income and disqualification or certain split interest gifts unless handled in a proper manner.
 - d. Care should be taken to be certain of the market for such property — clear title, environmental issues and any other restrictions. The following documents shall be required as part of due diligence:
 - 1) copy of the deed
 - 2) copy of the current year's tax bill
 - 3) a preliminary title report
 - 4) a list of encumbrances or liabilities on the property

Sample Development Fundraising Policy (continued)

- 5) a zoning report
 - 6) a copy of the last appraisal
 - 7) Phase I environmental report
 - 8) a review of the document entitled “Analysis of Real Estate With the Purpose of Considering A Charitable Gift” may be worthwhile. A copy is on file in the Development Office.
4. Gifts-In-Kind
- a. Gifts-in-kind that can be used by the School shall be encouraged and accepted by the Development Office.
 - b. Jewelry, artwork, collections and other personal property can only be accepted by the Finance Committee or such other person or persons authorized to do so by the Finance Committee.
 - c. Normally no personal property shall be accepted unless there is reason to believe the property can be disposed of quickly. The donor needs to be advised that their tax deduction will be limited to the property’s current market value. No personal property shall be accepted that obligates ABC to ownership of it in perpetuity. No perishable property or property which will require special facilities or security to properly safeguard will be accepted without prior approval of the Finance Committee.
 - d. Only the Finance Committee or persons authorized by the Finance Committee may represent to a donor that property will or will not be held for a requisite period of time or for purposes related to its tax-exempt status.
 - e. The School should attempt to acquire from the donor documents substantiating ownership. If the property is of substantial value, an effort should be made to be sure there are no liens against the property.
5. Other Property
- Other property of any description including mortgages, notes, copyrights, royalties, easements, whether real or personal, shall only be accepted by action of the Finance Committee or persons duly authorized on its behalf.

Receipting

For a charitable contribution of property other than cash, the donor must be given a receipt from the School as well as a reliable written record of specified information regarding the donated property. The receipt must include the date and location of the contribution and a description of the property in detail.

In any event, the Development Office must keep reliable written records with the following information for each item of donated property.

- 1. The date and location of the gift;
- 2. A detailed description of the property, reasonable under the circumstances (i.e. the more valuable, the more detail); if securities were given, the name of the issuer, the type of security and whether or not the security is publicly traded on a stock exchange or over the counter;
- 3. The property’s fair market value on the day of transfer to ABC, the method used to determine the fair market value and, if an appraisal was used, a copy of the appraiser’s signed report;
- 4. The terms of any agreement or understanding entered into by or on behalf of the donor that relates to the sale, use or other disposition of the donated property including, for example, the

Sample Development Fundraising Policy (continued)

terms of an agreement that:

- a. restricts (temporarily or permanently) ABC's right to use or dispose of the donated property;
 - b. earmarks donated property for a particular use.
5. Donors should be informed that they cannot claim deductions for contributions of \$250 or more unless they have received a receipt from ABC. They should also be informed about what deductions they can claim when a contribution of more than \$75 is made in exchange for something of value given to them in return. When ABC gives any item of value in return for a donation, they must subtract the cost of such items from their deductions. Certain small items they receive from ABC need not be considered as a deduction for their gift. Those values are readjusted annually by the Internal Revenue Service.

Charitable Contributions Requiring an Appraisal

A qualified appraisal is required for gifts of property, other than publicly traded securities, if the claimed or reported value of the property exceeds \$5,000. A qualified appraisal is required for non-publicly traded stock if it exceeds \$10,000 in value.

A qualified appraisal must be made no earlier than 60 days before the date of contribution and be prepared, signed and dated by a qualified appraiser.

An appraisal summary must be made on Section B of Internal Revenue Service Form 8283, signed and dated by ABC and the qualified appraiser, and attached to the tax return on which the donor claims or reports an income tax charitable deduction for the appraised property. The regulations require a qualified appraisal to give the following information:

1. A description of the property in sufficient detail for a person who is not generally familiar with the type of property to ascertain that the appraised item is the property that was contributed;
2. In the case of tangible property, its physical condition;
3. The date (or expected date) of contribution to ABC;
4. The terms of any agreement or understanding entered into (or expected to be entered into) by or on behalf of disposition of the contributed property — including, for example, the terms of any agreement or understanding that:
 - a. restricts (temporarily or permanently) ABC's right to use or dispose of the donated property,
 - b. reserves to, or confers upon, anyone (other than ABC or an organization participating with ABC in cooperative fund raising) any right to income from the donated property or possession of the property — including the right to vote donated securities, to acquire the property by purchase or otherwise, or to designate the person having the income, possession, or right to acquire or
 - c. earmarks donated property for a particular use;
5. The name, address and taxpayer identification number (Social Security number) of the qualified appraiser (or appraisers) and — if the qualified appraiser is a partner in a partnership, an employee of any person (whether an individual, corporation or partnership) or an independent contractor engaged by a person other than the donor — the name, address and taxpayer identification number (employer identification number) of the partnership or person who employs or engages the qualified appraiser;

Sample Development Fundraising Policy (continued)

6. The qualifications of the qualified appraiser who signs the appraisal, including the appraiser's background, experience, education and membership, if any, in professional appraisal associations;
7. A statement that the appraisal was prepared for income tax purposes;
8. The date (or dates) on which the property was valued;
9. The appraised fair market value of the property on the date (or expected date) of contribution;
10. The method of valuation used to determine the fair market value (i.e. income approach, market data approach, replacement cost approach);
11. The specific basis for the valuation, if any (i.e. any specific comparable sales transactions) and
12. A description of the fee arrangement between the donor and appraiser.

Property Dispositions

Should the School dispose of the property within two years for which an appraisal was prepared, an information return form 8282 must be filed with the IRS.

Deferred Gifts

Certain deferred gift plan arrangements shall be entered into according to the following suggested provisions:

Bequests

1. Gifts through wills (bequests) shall be actively encouraged by ABC School.
2. Gifts from the estates of deceased donors consisting of property which is not acceptable shall be rejected only by action of the Finance Committee. Legal counsel shall expeditiously communicate the decision of the Finance Committee to the legal representatives of the estate.
3. Attempts shall be made to discover bequest expectancies wherever possible in order to reveal situations which might lead to unpleasant donor relations in the future. Where possible, intended bequests of property other than cash or marketable securities should be brought to the attention of the Finance Committee and every attempt be made to encourage the donor involved to conform his or her plans to ABC policy.

Charitable Remainder Trusts

1. In general, ABC will not serve as trustee of charitable remainder trusts for the benefit of the institution but will retain a corporate fiduciary or outside counsel to manage them. The Finance Committee will identify a number of corporate fiduciaries and/or attorneys in which it has confidence.
2. The fees for management of a charitable remainder trust will only be paid by ABC upon approval of the Finance Committee.
3. The Finance Committee and other employees and volunteers acting on behalf of ABC should become familiar with the types of property generally accepted as suitable contributions to charitable remainder trusts. Employees or others acting on behalf of ABC shall not encourage donors to make gifts of any property to charitable remainder trusts which are not in keeping with such guidelines.
4. No presentations shall be made by any employee or other persons acting on behalf of ABC as to the manner in which charitable remainder trust assets will be managed or invested by a corporate fiduciary who may be recommended by ABC without the prior approval of such representation by the fiduciary.
5. Charitable remainder trusts and all other deferred gifts shall be encouraged as a method of making

Sample Development Fundraising Policy (continued)

gifts to ABC while retaining income which may be needed by the donor for personal purposes. Such trusts shall not be marketed as tax avoidance devices or as investment vehicles, as it is understood such activity may violate federal and/or state securities regulations.

6. Charitable remainder trusts shall not be sought which have non-charitable beneficiaries whose life expectancy exceeds thirty years or which names more than two income beneficiaries. No charitable remainder trusts shall be encouraged where it is determined that the net present value of the remainder interest in the trust is less than 50% of the value of the funds transferred to the trust.
7. The formula for the unitrust payout rate shall be determined in cooperation with each donor, with consideration to current economic conditions, and the nature of assets involved.
8. Lower payout rates will be encouraged with younger donors to achieve capital appreciation and ultimately increase the income benefits for donor(s) and the charitable contribution for ABC.
9. Payouts of income shall be made to donors monthly, quarterly, semi-annually or annually as requested.
10. Gifts made to charitable remainder trusts shall be credited by the Development Office according to the allowable charitable deduction determined by the I.R.S. For example, in those instances where it is anticipated that a portion of the principal will be returned to the beneficiary in order to meet a payout obligation, the gift should be credited at its net realizable value, i.e. the remainder interest, as calculated by ABC for financial statement purposes. Donors may be listed, however, in a campaign or other report in a category according to the fair market value, the full amount of the contribution to the trust.

Pooled Income Fund

1. Initially, ABC's Pooled Income Fund will be administered by the Santa Barbara Foundation and managed by their trustee, Wells Fargo Bank. Donors have the option of participating in either the Growth and Income Fund or the Fixed Income Fund. Donors must begin with an initial contribution of \$5,000 and may make additional contributions of \$1,000 or more. Wells Fargo Bank, as trustee, will be responsible for the issuance of quarterly income payments and all tax reports for donors. Contributions to the Pooled Income Fund are credited by ABC's Development Office according to amount of the I.R.S. deduction. Donors may be listed, however, in a campaign or other report in a category according to the fair market value, the full amount of the pooled income fund.
2. No income beneficiary in the fund may be less than 55 years of age without prior approval of the Finance Committee.
3. There shall be no more than two generations of income beneficiaries allowed in connection with each contribution to the fund.
4. No representation of the fund shall be made which could be construed as marketing the fund as an investment or security of any type. All disclosures required by state and federal regulatory agencies shall be made in a thorough and timely manner.

Life Estate Gifts

Such gifts may be accepted by approval of the Finance Committee when it is satisfied that there has been full disclosure to the donors of the possible ramifications of the transaction. Donors shall be responsible for taxes, insurance and maintenance. A written agreement shall be entered into with the donor(s) regarding these responsibilities.

Sample Development Fundraising Policy (continued)

Gifts of Life Insurance

1. ABC encourages donors to name the School to receive all or a portion of the benefits of life insurance policies which they have purchased on their lives.
2. ABC will not, however, as a matter of course agree to accept gifts from donors for the purpose of purchasing life insurance on the donor's life. Exceptions to this policy will be made only after researching relevant state laws to assure that ABC has an insurable interest under applicable state law.
3. No insurance products will be endorsed for use in funding gifts to ABC without Finance Committee approval.
4. In no event shall lists of ABC donors be furnished to anyone for the purpose of marketing life insurance for the benefit of donors and/or ABC. This policy is based on the fact that this practice represents a potential conflict of interest, may cause donor relations problems, and may subject ABC to state insurance regulation should the activity be construed as involvement in the marketing of life insurance.

Reports to Donors

Periodic statements of the performance of each trust shall be issued to donors. In instances where ABC is a remainder beneficiary but not a trustee, a report of the trusts performance shall be requested.

Payment of Fees Related to Gifts to ABC

Finder's Fees or Commissions

1. ABC will pay no fee to any person as consideration for directing a gift to the School. It is understood that such fees may or may not be legal and that in the case of irrevocable deferred gifts which involve management of assets, the payment of such fee may subject ABC and its management and Board of Trustees to federal and state security regulation.
2. In no event whatsoever will a commission or finder's fee of any type be paid to any party in connection with the completion of a gift to ABC School.

Professional Fees

1. ABC will pay reasonable fees for professional services rendered in connection with irrevocable gifts to ABC upon agreement with the donor.
2. Such fees will be paid only following discussion with and approval by the donor.
3. Fees shall be reasonable, and directly related to the completion of a gift. They shall be limited to appraisal fees by persons who are competent and qualified to appraise the property involved and who have no conflict of interest, legal fees for the preparation of documents and accounting fees incident to the transactions, when the donor does not assume this responsibility.
4. In cases where the persons receiving fees were initially employed by the donor and ABC is asked to pay the fees involved, the donor shall be notified that the payment of such fees may result in taxable income to the donor in the amount of the fees paid.

Specific Policies for the Recording, Processing and Administration of Gifts

Publicly Traded Securities

Such securities will be receipted on the date the donor relinquished control of the asset in favor of ABC and will be valued at the mean of the high and low value of the security on that date. The cash value of the

Sample Development Fundraising Policy (continued)

mean will be entered into the computer records of the donor and the Business Office. All such securities will be ordinarily liquidated by ABC's stock broker, and any subsequent loss or gain when the security is sold by ABC will be recorded as expense or income in the fund which benefited from the gift. The amount of the sale is credited to the fund which benefits from the gift.

Non-Publicly Traded Securities

Such securities are normally difficult to objectively value and thus will be handled like gifts of personal property, and will be entered on the books only when actually sold or converted to any objectively ascertainable value.

Insurance Policies

ABC must be named both beneficiary and irrevocable owner of an insurance policy before a policy can be recorded as a gift. ABC will record the cash surrender value of the policy when given, rather than its face value, as the amount of the gift. If the donor pays further premiums on the policy, ABC will include the premium payment in its gift total as paid. If ABC elects to pay the premiums, it will consider those payments as operating expenditures and not report increases in the cash surrender values as gifts. Regardless of whether the donor or ABC pays the premiums, the difference between the cash value and the benefit paid at the death of the donor will be reported as realized appreciation.

In cases where ABC receives a death benefit from an insurance policy in which it was beneficiary but not owner, the full amount received will be reported as a gift on the date received.

Real and Personal Property

Gifts of real and personal property under \$5,000 may be valued for internal record-keeping purposes by a member of the staff of ABC with some expertise with the concurrence by the Business Manager. It will not normally be entered into ABC's assets for accounting purposes. A non-ABC representative will provide any donor with an opinion regarding the value of any gift-in-kind to ABC. While all gifts are acknowledged by the School, it is the responsibility of the donor to document value for I.R.S. purposes.

Gifts of real and personal property with a value in excess of \$5,000 will be reported at the fair market value placed upon them by an independent appraiser. The value will be only entered in gift income for reports to the Board and will not be included in gift income for accounting purposes and will not normally be included in assets in ABC financial statements.

Restricted Gifts

All restrictions put on gifts by donors will be honored with the exception of those which conflict with the Internal Revenue Code or ABC policy.

Maturities

Maturities occur at the death of a donor who has named ABC as a beneficiary under a will, annuity, trust, pooled income fund or insurance policy. All maturities without restrictions will be entered into the endowment as requested, unless otherwise stipulated by the donor or by Board of Trustees' resolution. All maturities with donor designated restrictions will honor the donor's wishes; however, the Board of Trustees will have the final decision to refuse any gift that conflicts with ABC's mission or philosophy.

*Sample Development Fundraising Policy (continued)***Gift Income Reports**

The Development Office generates monthly gift income reports and any reports which may be required by special programs (i.e. campaigns, restricted donor programs, etc.). Reports are distributed to the Headmaster, Business Office, Board of Trustees and other appropriate volunteers.

Endowment and Restricted Investment Income Policy

- A. The principal of ABC endowment funds will be held in trust in perpetuity and invested and re-invested in accordance with procedures adopted from time to time by resolution of the Board of Trustees.
- B. A named endowment may be established with the following minimum gifts:
 - \$15,000 - Named Program Endowment to support maintenance, the Library, an academic subject area, department or a division of the School.
 - \$25,000 - Named Endowment for Faculty Study Grants or Student Summer Study Awards.
 - \$50,000 - Named Scholarship Endowment.
 - \$ 1,000,000 - Named Endowed Faculty Chair.
- C. Named Endowment Funds over \$50,000 shall exist in perpetuity. Named funds valued at less than \$50,000 shall be in effect for ten years. After that time, the Fund shall be reviewed by the Finance Committee to determine its continued effectiveness and could revert to the general program or scholarship endowment as specified by the donor.
- D. No restriction on how gifts may be used by ABC will be honored without prior approval of the Finance Committee.
- E. To insure that endowment assets are properly recorded, adequately safeguarded and managed in accordance with any related restrictions and prudent investment management practices, and that all investment income due is promptly collected, deposited and recorded, the subsequent procedures will be followed:
 - 1. Segregation of Duties

The receipt, recording, custody, transaction authorization and performance monitoring functions will be clearly segregated. The Development Office will receive all gifts, the Business Office will record them in the investment ledger, a corporate fiduciary or attorney will act as custodian, and the Finance Committee, Development Committee and the Executive Committee of the Board will authorize transactions and monitor performance.

The investment ledger will be reconciled with the general ledger by a person independent of the initial receipt, custody or recording of the endowment securities. It will be reconciled on a monthly basis.
 - 2. Recording of Investments

Endowment funds will be recorded in a separate account. They will not be co-mingled with other restricted funds.

Restrictions on investment principal and investment income will be documented in the Development Office with a copy forwarded to the Business Office.

Endowment gifts will be recorded in the investment ledger by a person independent of the initial

Sample Development Fundraising Policy (continued)

receipt or custody of the endowment securities. In other words, the Development Office will be the initial recipient of the gift while the Business Office will record it in the investment ledger.

3. Custody of Investments

Endowment securities will be deposited with an independent custodian and shall be monitored by the Finance Committee.

The custodian will issue periodic reports to ABC. The custodian will carry sufficient fidelity insurance. Investment securities will be in ABC's name or an appropriate "street" name.

4. Authorization and Monitoring of Investment

Securities transactions, including purchases, sales, renewals and exchanges will be approved by the Finance Committee of the Board.

The basis of valuation of the investment securities will be periodically reviewed by the Finance Committee.

Write-down or write-off authorization of endowment securities will be limited to the Headmaster working with the Executive Committee of the Board of Trustees.

Fund disbursements require two signatures, that of the Headmaster and the Business Manager.

5. Investment Income

The disbursement of restricted investment income will be reviewed by the Finance Committee to determine whether the disbursement is in conformity with donor- or Board-imposed restrictions. Restrictions on and proposed uses of investment income will be reviewed periodically by the Development Committee.

The promptness and accuracy of investment income payments by underlying companies and investment counselors will be reviewed periodically by the Business Office.

The allocation formula and the computation and distribution of investment income, realized and unrealized gains and losses of securities "pooled" for investment purposes will be reviewed periodically by the Finance Committee.

ABC will make every effort to insure that the principal in its endowment fund does not erode due to inflation. Earned income from the endowment will be allocated to the operating budget annually in an amount which insures that the endowment keeps pace with inflation. Earned income from the endowment will be allocated to the operating budget or as designated by the terms of the endowment. No part of the principal of the endowment may be used for any purpose of ABC except for an emergency declared by unanimous vote of all trustees present at a regular or special meeting of the Board of Trustees as defined in the bylaws.

Tax Law Considerations

Careful precautions shall be taken to stay informed regarding current tax legislation and requirements. It is imperative that authorized fund raising representatives and department leadership be adequately informed regarding tax requirements for ABC as well as for ABC donors.

It is vital that ABC comply with the current law substantiating charitable gifts; for example, that the timely use of Form 8283 involving in-kind gifts over \$5,000 be implemented. Requirements regarding Form 8282, when a subsequent sale is made within two years, must also be strictly adhered to.

New laws passed in 1993 regarding "Quid Pro Quo Gifts" need to be carefully followed. Substantiation

Sample Development Fundraising Policy (continued)

and reporting procedures for cash gifts over \$250, effective January 1, 1994, will need to be carefully developed and followed. For example, the Internal Revenue Code Section 170 (F) (8) provides that there cannot be a deduction for a gift of \$250 or more unless the donor is in possession of a written acknowledgment of the gift by ABC. It will be essential that the details pursuant to new regulations be adhered to carefully.

Similar guidelines are provided for under Internal Revenue Code Section 6155 regarding the receipt of a sum exceeding \$75 in which a donor receives some goods or services in exchange for the gift. It is imperative that ABC follow the written requirements of that code section and subsequent amendments to it.

Gift of Cash Acknowledgment Letter Sample

December 29, 2004

Mr. and Mrs. James Johnson
11 Milburn Park
Mayberry, IL 60501

Re: Receipt for Contribution

Dear Mr. and Mrs. Johnson:

On behalf of The Province, I would like to thank you for your gift on December 20, 2004 of \$1,000.00 by check. We greatly appreciate your generosity and your continued support of the Province.

Please retain this letter for your income tax records. If I can be of any assistance to you, please call me at (123) 631-6333.

Sincerely,

Provincialate Director of Finance

In accordance with Internal Revenue Code section 170 (f)(8), The Province acknowledges receipt of a charitable contribution in the amount of One Thousand Dollars (\$1,000.00) from Mr. and Mrs. James F. Johnson. Under tax law, the amount of your contribution that is deductible for federal income tax purposes is limited to the excess of the amount of any money and other property contributed over the value of goods or services provided by our organization. This receipt confirms that no goods or services were provided in connection with your contribution.

AMOUNT OF CONTRIBUTION: \$1,000.00

VALUE OF GOODS AND/OR SERVICES PROVIDED TO THE DONOR: \$0.00

Gift of Cash Acknowledgment Letter Sample

Date

«Addressee»

«Address_line_1»

«Address_line_2»

«City», «State» «ZIP_Code»

Dear «Addressee»;

Thank you for your gift of «Amount» for the «Fund_description_1» «Reference». On behalf of the Organization, I extend our deep appreciation and our promise of prayers for you and your loved ones.

As a partner with us in caring for senior Sisters, you enable us to respond to their primary health care need for a new facility. Together we are providing them a serene and nurturing environment in which to grow gracefully through the aging process. Your generosity is a concrete example of God's continuous love and care for the senior Sisters, who have cared so well for us in the past.

Thank you for your continued support. May you and your loved ones be blessed and may your days be filled with God's loving presence.

Sincerely,

Sister Firstname Lastname

Director of Development

Organization

Mailing Address, City, State Zip

Received from «Additional_Addressee» the amount of «Amount» on «Gift_date» for the
«Fund_description_1» on check #«Check_Number» dated «Check_Date».

Thank you!

FN

The donor has received no goods or services in return for the contribution noted above. Donations to the Order's various funds are tax deductible to the extent allowed by law. In order to ensure that donors will be entitled to a federal income tax deduction, Order is required by Internal Revenue Service rulings to retain full authority over the assets granted to our religious congregation and cannot accept gifts that are required by the donor to be paid to, or to be used only to further, the work of a specific individual or that are required to be used overseas by our institute or another foreign charity or religious institute. The IRS has ruled that a cancelled check is no longer sufficient proof of a tax-deductible contribution. Please retain this letter as a receipt for tax purposes. Your name will be included in our published list of friends unless you direct otherwise.

Gift of Stock Acknowledgment Letter Sample

January 13, 2005

Mr. and Mrs. John Doe
412 Glen Echo Place
Old Hickory, TN 27138

Re: Receipt for Contribution

Dear Mr. & Mrs. Doe:

On behalf of The Province, I would like to thank you for your gift on December xx, 2004 of xx shares of common stock of XYZ Company. We greatly appreciate your generosity and wish you a blessed and prosperous new year.

Please retain this letter for your income tax records. If I can be of any assistance to you, please call me at (123) 631-6333.

Sincerely,

Provincialate Director of Finance

In accordance with Internal Revenue Code section 170 (f)(8), The Province, acknowledges receipt of a charitable contribution of xx shares of common stock of XYZ Company from Mr. and Mrs. John Doe. Under tax law, the amount of your contribution that is deductible for federal income tax purposes is limited to the excess of the amount of any money and other property contributed over the value of goods or services provided by our organization. This receipt confirms that no goods or services were provided in connection with your contribution.

VALUE OF GOODS AND/OR SERVICES PROVIDED TO THE DONOR: \$0.00

Gift of Crafts Acknowledgment Letter Sample

Donor
Address
City state zip

Dear Donor;

Thank you for your generous gifts and crafts for the 'project/group/etc..' On behalf of the religious institute, I extend our deep appreciation and our promise of prayers.

Becoming a partner with us in our ministries enables us to continue responding to the needs of God's People that are placed before us. Together we can bring God's truth and justice to our world building a future in faith. Your generosity is a concrete example of God's continuous care for us.

May you and your days be blessed and filled with God's love.

Sincerely,

Sister Firstname Lastname
Director of Development

Religious Institute Name
Address • City, State, Zip code

Received from Donor, 2 boxes of crafts and gifts on 09/28/2004

Thank you!

Non-Cash Gift Acknowledgment Letter Sample

April 1, 2005

Mrs. Anna Jones
1000 North 15th Street
Anytown, MI 55555

Re: Receipt for Contribution

Dear Mrs. Jones:

On behalf of The Province, I would like to thank you for your gift on March 31, 2005 of a Yamaha C series upright piano. We greatly appreciate your generosity and are honored to have such a lovely gift gracing our high school auditorium. The students are ecstatic.

Please retain this letter for your income tax records. If I can be of any assistance to you, please call me at (312) 777-1234.

Sincerely,

SISTERS OF JESUS
Mindy Smith
Director of Finance

In accordance with Internal Revenue Code section 170 (f)(8), Sisters of Jesus acknowledge receipt of a charitable contribution of a Yamaha C series upright piano from Mrs. Anna Jones. Under tax law, the amount of your contribution that is deductible for federal income tax purposes is limited to the excess of the amount of any money and other property contributed over the value of goods or services provided by our organization. This receipt confirms that no goods or services were provided in connection with your contribution.

VALUE OF GOODS AND/OR SERVICES PROVIDED TO THE DONOR: \$0.00

Tax Letter for Gift of Property - Kept Sample

April 1, 2005

Mr. Patrick Henry
1234 Liberty Drive
Freedom, PA 98765

Re: Receipt for Contribution of Vehicle
2001 Ford Mustang
VIN: 1G456XY789UV223
Donor Name: Mr. Patrick Henry
Donor SSN: 333-10-4566

Dear Mr. Patrick Henry:

On behalf of XYZ Retreat Center, I would like to thank you for your gift of the above named vehicle on March 25, 2005. We greatly appreciate your generosity and are pleased to inform you that the Retreat Center will retain the vehicle for use in our retreat ministry for the remaining useful life of the vehicle, estimated to be a period of approximately three years. Your gift will make a difference in helping to support the good works of the Province.

We hereby certify that the above named car will not be transferred in exchange for money, property, or services prior to the completion of our intended use, as described previously. Please note that your charitable contribution deduction for federal income tax purposes is limited to the fair market value of the vehicle as of the date of contribution.

In addition, the Congregation did not provide any goods or services in consideration, in whole or in part, for your vehicle contribution.

Please retain this letter for your income tax records. You will be required to attach a copy of this letter to your federal income tax return for 2005. If I can be of any assistance to you, please call me at (123) 631-6333.

Sincerely,

XYZ RETREAT CENTER
Father John Doe
Retreat Director

Tax Letter for Gift of Property - Not Kept Sample

April 1, 2005

Mr. Patrick Henry
1234 Liberty Drive
Freedom, PA 98765

Re: Receipt for Contribution of Vehicle
2001 Ford Mustang
VIN: 1G456XY789UV223
Donor Name: Mr. Patrick Henry
Donor SSN: 333-10-4566

Dear Mr. Patrick Henry:

On behalf of XYZ Retreat Center, I would like to thank you for your gift of the above named vehicle. We greatly appreciate your generosity and are pleased to inform you that the vehicle was sold on March 25, 2005. Your gift will make a difference in helping to support the good works of the Passionists.

The vehicle was sold for \$6,000.00. We hereby certify that the sale of the car was an arms length transaction between unrelated parties. Please note that your charitable contribution deduction for federal income tax purposes is limited to the amount of gross proceeds of the sale of the vehicle, which is \$6,000.00.

In addition, the Congregation did not provide any goods or services in consideration, in whole or in part, for your vehicle contribution.

Please retain this letter for your income tax records. You will be required to attach a copy of this letter to your federal income tax return for 2005. If I can be of any assistance to you, please call me at (123) 631-6333.

Sincerely,

XYZ RETREAT CENTER
Father John Doe
Retreat Director