



# Giving

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## CHAPTER OUTLINE

1. What do I need to know about giving?
2. Fund types & gift acceptance
  - A. Funds with & without donor restrictions
  - B. Special event proceeds
  - C. Gift acceptance policy

Chapter 4 Summary: Giving

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## INTRODUCTION

Financially stable nonprofits make use of a wide range of funding sources and are mindful of the differences in accounting, donor and funder expectations, and restrictions. Nonprofits need to think about the money that fuels their work including stewarding funds in ways that uphold the public's trust.

## 1. WHAT DO I NEED TO KNOW ABOUT GIVING?

As a nonprofit board member, you should understand the following concepts around giving.

- **Alignment of fundraising and financial reporting is essential** for effective and timely information to reach individuals and institutions funding your nonprofit's work. For the right reporting to take place within larger organizations, development and finance staff must have clear communication processes in place.
- **The IRS regulates the donor documentation requirements needed to claim a deduction as a charitable contribution.**
  - Donors must receive a written acknowledgement for gifts over \$250.

- Nonprofits must provide donors with a good faith estimate of the fair market value of the goods or services received in exchange for donations of \$75 or more; in addition, the organization is required to inform the donor the contribution amount that is deductible for federal income tax purposes is limited to the excess of any money over the fair market value of goods or services provided by the nonprofit.
- Any noncash donation greater than \$5,000 requires the organization to complete the Donee Acknowledgement portion of the IRS Form 8283. In addition, if you decide to sell or dispose of these items within 3 years of receipt, you will need to complete IRS Form 8282.
- **A pledge, or promise to give, is a formal commitment to make a contribution of a specific amount.** Individual donors and institutional funders can make pledges.
- **An endowment is a donation given with the intent that the principal (corpus) will be invested in perpetuity.** As defined by the donor, the organization may use the earnings for general operations or specific purposes.
- **Donations other than cash or pledges, typically goods or professional services, are considered in-kind.** An organization should be careful about issuing written donor acknowledgements related to in-kind donations. Some in-kind donations are tax-deductible like goods at fair market value, while others like volunteer time are not.
- **Funds with donor restrictions are contributions restricted by the donor for a specific use.** Restricted gifts require additional tracking and accounting to ensure the contributions are stewarded appropriately and used as intended. Donor-imposed restrictions may be permanent in nature (i.e., endowment) or temporary. Make sure you clarify the timing related to the restriction with your donor.

There are giving-related actions you can take to instill a strong nonprofit finance culture within your organization.

- **Build systems for consistent communication between the fundraising and financial sides** of the organization.
- **Set goals around diversifying income streams, monitor trends that effect funding like community shifts in individual giving, and engage in scenario planning.** Imagine possible scenarios that include funding either going away or new funding becoming available. Think through what the organization would do and how quickly action could happen.
- **Track non-cash contributions like in-kind goods or professional services provided.** Consider the possible affects to the organization, and actions needed, if a significant in-kind good or service was no longer available.

**ACTIVITY**

**Your turn:** Review your organization's most recent income statement. Here are some questions to ask yourself. Use the space provided to write down your answers and any action steps. Consider asking these questions across several board meetings to see how your answers change over time.

**Ask yourself...**

- Where does the organization's funding come from now? What percentage of the budget does each funding source make up (e.g., 30% is from foundations)?
- How often do individuals involved with fundraising directly communicate with individuals responsible for accounting and financial management? Does this feel like the right level of communication for your organization? Are team members communicating about funds with restrictions, pledges, and in-kind donations?
- How is the organization accounting for pledges? Does the organization track and account for in-kind donations?
- For funds with donor restrictions, do you know what the reporting and accounting requirements are? Is the organization following through on required reporting?

**Notes & Next Steps**


## 2. FUND TYPES & GIFT ACCEPTANCE

For most nonprofits, donor contributions make up some or all the organization's funding. Since fundraising is a regulated activity, be aware of the types of funds contributed, possible reporting and accounting requirements, and consider putting a gift acceptance policy in place.

### A. Funds with & without donor restrictions

Nonprofit accounting standards require organizations to classify contributed income in one of two ways: with donor restrictions or without donor restrictions. This section provides information on these two income categories.

- Funds **with donor restrictions** are contributions with donor-imposed restrictions that may be met by completing specific activities or after a set time passes. Donor-imposed restrictions may be permanent or temporary. If you plan to accept funds with donor restrictions, clarify the details for use, reporting, and accounting of the funds. Ensure your organization's bookkeeper or accountant is aware of any contributions with donor restrictions as well as any specific grant or donor reporting requirements.
- **Funds without donor restrictions** are contributions in which the donor places no restrictions on use other than the general support of your organization. For example, general operating funds that come with no restrictions can be used to sustain the organization as needed. A nonprofit's board of directors may choose to identify funds for a specific purpose, such as an operating reserve. For accounting purposes, these **board-designated funds** are still considered to be without donor restrictions since the donor did not specify the condition(s).

### B. Special event proceeds

Income generated through the attendance of a specific fundraising event, either through donations given at the event or ticket sales, are considered special event proceeds. If the organization advertised the special event as supporting a specific program, initiative, or campaign, the bookkeeper or accountant needs to restrict the funds accordingly. Written acknowledgements to donors **reflect the net tax-deductible amount**.

For example, a donor gives a nonprofit \$100 for an event and receives a dinner with a fair market value of \$40. This is known as a quid pro quo contribution. Although the deductible part of the payment (\$60) is less than the \$75 threshold mentioned earlier in the chapter, the nonprofit must provide the donor a written acknowledgement or disclosure statement as the donor's payment (\$100) is greater than \$75.

### C. Gift acceptance policy

There are times a nonprofit should not or may not want to accept a gift offered by a donor. Some gifts or proposed restrictions may create more difficulty and unanticipated expense than actual benefit for the

nonprofit. A nonprofit should consider implementing a gift acceptance policy that clearly states what types of gifts the organization will and will not accept. Establishing a gift acceptance policy helps manage donor expectations and provides direction to board members, staff, and volunteers who may support fundraising efforts.



### ACTIVITY

Review the sample income statement provided on page 14 of this guide and respond to the following questions.

*\*Answers are on page 47.*

Question	Response
1. According to the budget, what are the organization's four largest funding sources? What percentage of the budget does each source make up?	
2. In terms of giving, what does the organization's bookkeeper or accountant need to track?	
3. At this time, are the nonprofit's income streams diversified? Why or why not?	



1. Fundraising is a regulated activity, and the IRS has donor documentation requirements needed to claim a deduction as a charitable contribution.
2. Understand the differences in use, reporting, and accounting of funds with donor restrictions, funds without donor restrictions, and board-designated funds.
3. A formal commitment to make a specific contribution amount is a pledge. A donation given with the intent that the principal will be invested in perpetuity is an endowment, and as defined by the donor, the organization may use the earnings for general operations or specific purposes.
4. Typically goods or professional services, in-kind contributions are donations other than cash or pledges and are important for your organization to track.
5. For effective and timely information to reach individuals and institutions funding your organization's work, alignment of fundraising and financial reporting is essential.



## Here are some questions to think about:

- Is the nonprofit being thoughtful as you make decisions about the funds you apply for and accept?
- When the organization requests and accepts funds with donor restrictions, are you considering any additional tracking that may be involved and how you will fulfill the requirements?

## Reflections




## Next steps:

- ❑ Review your nonprofit's current process for gift acknowledgement. Use the following resources to check that your organization's approach meets IRS regulations.
  - National Council of Nonprofits – [Gift Acknowledgements: Saying 'Thank You' to Donors](#)
  - IRS Charitable Contributions – [Substantiating Charitable Contributions](#) and [Quid Pro Quo Contributions](#)
- ❑ Review Propel Nonprofits [Managing Restricted Funds resource](#) to gain a deeper understanding on funds with and without restrictions.
- ❑ Explore the National Council of Nonprofits [Gift Acceptance Policies resource](#) to help you review your current policy for improvement areas or to get you started (samples included).