

Christian Nonprofit CFO Podcast

EPISODE #42 TRANSCRIPT

What to Do When Budgeted Donations and Restricted Donations Conflict

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David Beroth:

Budgets. Aren't they wonderful financial tools? However, it does not take a long season in financial leadership to quickly realize the budgeted activities and actual activities never coincide. This is normally not a problem when there are just minimal differences. However, it takes some real financial insight, wisdom, and leadership when you have to address significant variances between budgeted activities and actual activities. Today, we're going to consider a question that quickly becomes practical and financial leadership. The question is this: What to do in budgeted donations and restricted donations conflict?

Intro:

*Welcome to another episode of the **Christian Nonprofit CFO Podcast**. This is the place to enhance your insight as a CFO in order to expand your influence and optimize your ministries impact. Content on this show is to inform, instruct and encourage your strategic development. It is not to render specific financial or legal advice for your organization. Now here's your host, David Beroth.*

David Beroth:

Hello, my friends, and welcome to the June episode of the **Christian Nonprofit CFO** podcast. Thank you for taking your time today to join me as we consider how to serve our nonprofit organizations with excellence. I want to start out this episode here today with an invitation to you. As you know, conferences by and large were shut down last year due to the coronavirus issues. However, this year with conferences now starting to come back together, I'm going to be participating in the Missio Nexus conference that will be taking place in September of this year. And I wanted to give you an invitation for you to come join me at the Missio Nexus conference in Dallas, Texas on September 22nd, 23rd, and 24th, 2021. I'm glad to hear that there is a special discount that can be provided to you as a listener of this **Christian Nonprofit CFO** podcast. So if you go to the website, www.missionexus.org, and you register there and you put in the discount code CFOPODCAST, you can receive a 10% discount to register for the September Missio Nexus conference. So I hope you will attend that conference, and you can join me as we learn more and more how we can serve our organizations with excellence.

Today we're going to be considering a topic that really comes up in financial leadership quite a bit. And it is this: What to do when budgeted donations and restricted donations conflict? It is an unfortunate reality that you can make the best of financial plans. For instance, the year 2020 was a prime example. You could have had this wonderful budget as you headed into the year 2020 only to realize that God had other things in mind. We know the scripture says that in his heart, a man plans his course, but the Lord directs his steps. And certainly in organizations, that truth rings true as well. You can make the best of plans, the best of budgets, however, the Lord can really direct your steps differently, and it takes a good level of financial wisdom to know how to work with your executives, how to work with your board of directors, that even though you might've had the best of budget plans, when actual activities don't coincide well with the budgets, how do you maneuver and work through and navigate those particular waters?

I've come up with seven ideas to help you in your organizations to navigate these particular challenges. So let's take an example. Let's say that we have a nonprofit organization called Save the World Ministry. And for sake of illustration, we'll say that this ministry is working primarily in the central region of Zambia, where the capital city of Zambia is Lusaka, and there's a Lusaka province. So let's say that your ministry works primarily in that central Lusaka region, there in Zambia, for sake of illustration. Again, let's say that your annual budget as an organization was about \$4 million. You had three primary projects. Each one of them, you were shooting for \$1 million of restricted donations for these particular projects. And then you were going to have another million dollars unrestricted income that you were hoping to have in order to handle the operations of your ministry. So once again, for sake of illustration, let's say project number one is that you had budgeted to receive \$1 million for food distribution and the proclamation of the gospel while that food is being distributed. And that was project number one. Project number two, you were hoping to receive \$1 million to run a Christian school there in Lusaka area. And then project number three, you were hoping to receive \$1 million to run an orphanage in that general central-Zambia part of the world.

Once again, three projects, a million dollars each for food, one million for school, one million for orphanage and another million dollars for operations. So here's a couple scenarios for your initial consideration. What happens if you get a \$40,000 donation to minister to the widows in central Zambia? That's not necessarily aligned with projects number one, two or three, but how do you handle a donation such as that scenario? Number two, what happens if you get a \$400,000 donation to build wells in the southern part of Zambia, which is not really in your central part that you normally focus on in Zambia. And scenario number three, what happens if you get a two million dollar donation to assist the orphanage, even though you had just hoped for and budgeted \$1 million for that orphanage? Of course, you're excited to receive \$2 million, but how do you handle that in your overall budget picture? If you only had anticipated 1 million and you received a \$2 million donation for that particular project? What do you do in these sorts of scenarios?

Let me unpack for you seven ideas that I personally have sought to pursue, and things that might be helpful to you as you endeavor to lead your nonprofit organization in these financial areas. Idea number one, in this situation where you are trying to mitigate and or address this conflict between budgeted activities and restricted activities, I would say, make sure that you proactively engage with your donor development leaders around the exact amount of money you're trying to raise in your budget for the specific projects. It's amazing to me, you know, the budget process. It's a very iterative process. At least that's been my experience, and there are lots of conversations that occur over the anticipated amounts you want to raise, what the different activities are going to occur, what you hope to accomplish in the ministry.

And when those iterations take place, finally, the dust settles, and you compile the budget, you present to the board. And let's say, if you're on a calendar year for your ministry, let's say that the board finally does their processing late November, early December, to approve the budget before you head into the new year. It is prudent and very wise for you to sit down with your fundraising team and the leaders, and say, "Now that we've gone through these various discussions and iterations of the budget process, we want to sit down and review with you that we can have clarity and good understanding of where things landed in our upcoming budget." Because in doing so, you can make sure there is good alignment between the finance team, the executive leadership, and then the fundraisers, that they have a clear understanding of the expectations of, Lord-willing, the money they can raise for your particular projects.

So in our situation there with the Save the World Ministry, you can sit down and say, There were a lot of conversations. We initially discussed seven different projects we were considering for the upcoming year. We landed on these three projects for food distributions, running the school, and running an orphanage, and Lord-willing, we'd love to see \$1 million committed for each of those projects. That allows you to start heading into your new budgeted year with an understanding and clarity between the fundraisers and the other folks involved in the ministry. So number one, connect with and communicate clearly with the fundraisers of your organization.

Idea number two, work with your IT/website team to ensure that your key projects have clear giving options on your website. It would be unfortunate if you came to the culmination of your budget process and that clear communication did not get handled with your website development team to make sure that those giving options were clearly listed and that communication occurred to donors who were engaging on your website. You want to make sure that those compelling giving options are clearly laid out with a good, clear vision and a way for donors to engage through the website, to connect with your ministry, to help with these projects. It would be very unfortunate to have this clear budget internally, but not to be able to connect with your fundraising team, and then be connected with the main way that people connect with and understand what's going on in your ministry, which is your website. So just idea number two, make sure your website is clearly capturing what you are hoping to accomplish for your activities for the year idea.

Number three, make sure that you have a process in place to evaluate unique gifts to your organization, so that you don't find yourself receiving a gift for which you cannot fulfill its donor's restriction. It is surprising to see... many donors will align closely with what you are hoping to accomplish, but there are donors that have their own ideas. There are donors that have their own unique types of gifts they want to give. And you don't want to find yourself in a quandary where you have, per chance, received a donation only to realize later that you truly can't fulfill that donor's request, and you can't fulfill that restriction that was assigned to that donation. And it's just an uncomfortable activity to have to work through that type of situation. I would suggest that you try to think about, if you're sizable at all in your organization, think about what is a gift acceptance committee that you should have as part of your organization to consider, either abnormal types of gifts or gifts for purposes that are outside your normal area of ministry focus. As an example, you have these projects for food, school, and orphanage. If you have a donor that says, I want to give money for Wells, and I want to assist with well support and building wells in the neighboring country of Malawi. Well, the gift acceptance committee can evaluate that and say, Well, that's not exactly the line of what we're thinking—let's have some more conversation around what possibilities might be for that unique type of gift that is outside our normal activities. And it might be that you can align those things. But you want to have the conversation on the front end before you receive a donation and you cannot fulfill that donor's request.

Another type of situation is donors sometimes have those unique types of gifts. They might say, you know, in this day and age, I've got three Bitcoins that I want to give to your organization. Can you receive this cryptocurrency? Well, that's a whole other can of worms, to receive cryptocurrency in your organization and convert that to cash in order to use that for your ministry purpose. So think about if those types of unique situations arise, have a handful of people in your organization that can come to agreement, whether you are willing and interested in receiving that unique type of gift or a gift outside of the normal area of ministry focus and that you can make that function in your organization. Now, of course, if you do decide to receive a gift, celebrate as a finance leader and say, We are so grateful that we are going to be able to work with this donations outside of our typical three projects. But we celebrate that, and we want to see this donation put to good ministry use.

Here's an example. I heard recently about a finance leader who had previously worked at a Christian school. They were finance leader for the Christian school. This Christian school did not have busing services for the students. A donor came along and said, I would like to give money for school bus to help with the students to get to school. The school considered it. They processed it as a possibility. And they realized, Even though we're grateful for the money, that is just not a service we want to offer for our school. And they ended up turning down that donation. Was it a generous donation? Yeah, it was. Was it really thoughtful for that donor to consider that? Well, yeah, it was. However, that did not align with what the school was going to be doing. And they didn't want to get into a situation where they had a long-term commitment to provide busing services based on that one donation. So they had to make a decision to turn it down and allow those resources to be used for something else. So idea number three, evaluate those unique gifts. And one way of doing that is to the gift acceptance committee.

Idea number four, encourage your team to go back and discuss with the donor if you are unable to receive a potential gift with its current restriction. So once again, under that scenario where somebody comes along and they says, Well, I want to give money for wells— what can you do with it? And as you consider it, and you think about it, and you realize, we really unfortunately cannot fulfill that donor restriction. However, we would love to work with you not to do wells in the neighboring country of, we'll even say, Zimbabwe—as worthy of a cause as that might be—however, would you be willing to work with us to provide good clean water to the neighboring district around our school and or our orphanage? And the donor may think about it and say, sure, if there are needs in your areas to have good clean water, I certainly can work with you instead of having to go to a neighboring country to do wells there. So in a situation like that, you're engaging with the donor. You're realizing you want to honor the donor's request, but you intentionally and proactively evaluate how you can align the donor's heart and their desire for wells with what you're actually doing as an organization, and in doing so, you can build that alignment. You can build that clear vision and direction between what you're doing and what the donor wants to accomplish. And by redirecting that contribution through appropriate conversation and communication and documentation with a donor, that then allows for greater alignment and greater mission accomplishment. And it really can be a win-win situation all around where the donor is excited, you're excited, and ultimately you're able to provide good and clean water in the part of Africa in which you're working.

Idea number five— this is more internal. It is important for you, and incumbent upon you, as a financial leader to evaluate what is the insightful type of financial updates and communication that you need to provide for the internal leaders in your organization when you start handling these types of donations. You need to think about, okay, if I get a large gift that is outside of what we were anticipating, what is the communication I need to provide for the awareness that the leaders can clearly understand this is what's happening, these are the balances, this is the situation which we find ourselves, that we can all stay on the same page of where we are financially.

For instance, you might need to observe that even though you have received the full annual contribution amounts for the budget— maybe in your \$4 million annual budget, you've received four and a half million dollars. However, if you begin to see that the mix of restricted versus unrestricted donations are out of kilter, compared to what you were seeing in the budget, you would need to communicate that well— that you're processing, here's what we anticipated, here's what's happening, here's the mix that we're starting to see that could unfortunately be problematic because we could be doing lots of great ministry, but if we see the infrastructure, if we see the operating funds declining, that could be problematic for the longterm health and wellbeing of the organization. In financial leadership, you don't want those operating funds to start going negative on you, or start being compromised in such a way that you can't handle the longterm health and wellbeing of the organization financially simply because you're funding a key project. So it is incumbent upon you as a financial leader to design those financial updates and communications in such a way that the executives in the organization and the

board clearly understand here are the types of restricted funds that we have, and here are the balances that we have, and here's how the mix is occurring to to make sure that things are being handled appropriately.

Number six. This kind of goes along with number five, but I think it's worth mentioning it separately from number five, because it is so very, very important. You need to monitor whether you have enough unrestricted operating reserves to handle the expenses for the unfunded projects, should that occur, so you don't get yourself in a bind. So you need to take it upon yourself as a financial leader— yes, to celebrate the missional accomplishment, yes, to celebrate the restricted funds that are coming in. However, it is your responsibility to also carefully monitor the unrestricted operating reserves that you have to handle the foundation, the financial foundation, for your organization. So for instance, you probably should establish, if you don't have them in place as of yet, you really should establish, What are those financial parameters? What are those financial ratios? What are those financial warning signs of this is how far we can go with our operating funds in order to make sure that we are not compromising that financial strength that we have as an organization? Whether if it's okay we can spend so much money on our project before we raised the money, but only to a certain level of the operating reserves that we have in the bank, we can spend so much in restricted money, for instance, another example, compared to unrestricted overall. However, if we get into a position where the money has not come in for a project that we need to assess the ongoing activities for a project, based on the unrestricted reserves, that's the type of financial analysis you have to bring the organization to think through. I need to ensure the financial stability longterm in this organization rather than just being focused on, you know, one year opportunities for a particular project. So think about that composition of unrestricted reserves versus the restricted type activities that you are having an organization. How are you going to see that occur? That's idea number six.

Idea number seven, and then we're going to end our episode with three specific ways you can maybe look at these items as well. But this idea number seven is another important one for you to consider that when, or if you see large amounts of restricted contributions coming in that are not in alignment with your budget, you need to think about what conversations need to occur, that, potentially, you need to refocus your ministry efforts based on where the funding is occurring versus where you had hoped it would occur when you initially prepared your budget. There is a point in time where you might say to your leaders, We were focusing on three projects. Two projects are bringing in just enormous amount of money. Project number one, unfortunately is not bringing in much money at all. And before we spend so much money on this project—for which we're actually having to pull from the unrestricted funds in order to fund this particular project—we need to seriously, prayerfully think about maybe this is not where God has for us to focus our efforts and our finances at this point in time. So, as an example, with our three projects between funding food distribution, a small Christian school in Zambia or funding an orphanage, let's say that you have tremendous money coming in for the school and the orphanage. You might say maybe for the season, the food distribution is just not an area that we can focus on right now. That's not where God's providing the money. And we need to focus on the resources that God has given to us, and really thrive in those particular areas.

And that would be a way that you need to initiate that conversation with the leaders in your organization. This is a point—actually all seven of these points—financial leadership is so crucial because this is where it separates the number crunchers, the accountants, and those that are not willing to really think deeply about these things. You need to take your financial knowledge, and you need to lead out in strategic discussions based on what you're seeing and what you're understanding. So in these items, this is where financial data can truly become financial wisdom. So those are some thoughts for you to help mitigate the conflict that could occur between your budgeted donations and the actual donations that come into your organization.

As I'm wrapping up this episode here today, let me give you an idea, a rule of thumb, if you wanted to quantify how to look at these sorts of things. So once again, under our scenario, this \$4 million budget item, item number one, if your restricted donations are up to 5% off of your budgeted plans, I think it would be worthwhile just informing the appropriate people of the financial activities that are occurring the organization. So as an example, \$4 million at 5% is \$200,000. So if you have donations that come in that are within 5% of your overall intent of how funds will be raised and expended, information should be adequate. So in a situation where you got that \$40,000 donation to minister to the widows in central Zambia, you might look at your overall budget and say, Praise God, we are raising adequate funds for the food, for the school, for the orphanage. If we get a \$40,000 nation to minister to the widows, we are thrilled to minister to them as part of what we're doing, whether it be through the food distribution or general gospel proclamation, it's fine if we incorporate this widow outreach into our overarching plan of what God is doing this year and our ministry. That should be fine.

However, if your restricted donations are between 5% and 10% off of your plans, that's where you might need to start thinking more deeply about the matter. And you should intentionally report on this for the awareness of the leadership in your organization. So for a \$4 million organization, you would say between \$200,000 and \$400,000 variance, you might think, okay, I want to make sure that the leaders are aware what has happened, where we are overall, and bring to their attention if you start to see any signs where there might need to be some change in the overall focus. So, as an example, let's say you get that \$400,000 dollar donation to build wells in Zimbabwe instead of in Zambia, and to do ministry in Zambia, you might want to ensure there's clear communication around, this is what the broader implications of this type of activity might be to your ministry. And it would be worth having the strategic discussions if or when adjustments need to be made to your plans in order to accomplish building the wells versus the food, the school work, or the orphanage work in Zambia.

Have the conversations. Make sure that there is the awareness that there is starting to be a growing level of budget variance compared to what you had originally anticipated for your year. However, if you get to a point where your restricted donations are more than 10% off of your plans, then you really need to think about what are the strategic discussions that you should initiate to potentially alter significantly your original plans.

So in a situation where you get this \$2 million donation to assist in the orphanage, that's exciting. That's wonderful. Just think of how many orphans you can assist. However, if you get that type of support for one of your projects, if you don't get the funding for your other projects, you need to think about, well, maybe we really do need to modify what we anticipate doing and make adjustments to our overall plans and what we're doing out there in the mission field to help out these different areas. And so just a couple of ways to think about—under 5% between 5% and 10% variance, and over 10% variance—how you might want to make adjustments in your organization in order to ensure that the specific ministry needs are being met for which there is financial support, as well as maintaining that financial stability in your organization.

I hope those ideas were helpful to you as you sort through this challenge in your organization, because it does occur, and we need to provide that insight needed for those that are asking the questions. And even if the questions aren't being asked, you need to initiate that conversation to ensure financial health and wellbeing in your organization.

I was thinking about that example of Jesus and the woman at the well where the disciples went to get some food for Jesus. And this woman comes to draw the water from the well, and Jesus starts to minister to her. And if I put myself in the shoes of the disciples, I might be thinking to myself, well, Jesus, I had a plan for you for the next few days. And we actually had some budget in place for what we were going to do. And as we headed to the next city, and Jesus might be saying, okay, disciples, I understand your idea, your plans. I understand you even had your budget that coincided with your plans. However, I have other plans in store for you, and we're going to spend money differently than what you had originally budgeted for the next couple of days. And it's just glorious. If we can truly follow what Jesus has for us and follow his direction for us and in doing so, we can be amazed and observe what he wants to accomplish in the organization, regardless of what you had originally planned. You can see that God's hand is at work in the current ministry opportunities. And at that point in time, you need to adjust your plans and adjust your budgets to what God truly wants to accomplish in your organization at that particular time.

I hope that's helpful. Once again, I've had to work through those things myself, and as you work through those matters in your financial leadership, may the Lord give you wisdom and insight as well. So in closing today, thank you for joining me for this episode of the **Christian Nonprofit CFO** podcast, where we have thought through together what to do when budgeted contributions and restricted contributions conflict. I look forward to connecting with you again in the months ahead to explore how to best enhance our insight in order to expand our impact.

So I'll now close with the words of Hebrews chapter 13, verses 20 and 21, where it says, "*Now may the God of peace who brought up our Lord Jesus from the dead, that great Shepherd of the sheep, through the blood of the everlasting covenant, make you complete in every good*

work to do His will, working in you what is well pleasing in His sight, through Jesus Christ, to whom be glory forever and ever. Amen."

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