



# The Nonprofit Ethicist

by Woods Bowman

**D**ear Nonprofit Ethicist, I worked for a supervisor who was concerned about posting figures that presented the fundraising department in a flattering light—although, for various reasons, our figures did not do so. We were always struggling until (literally) the last minute before a board meeting, the 31st of the month, etc., counting money, to get every last cent posted, when comparing it with last year's month-to-date, etc.

As the year progressed and we failed to compensate, however, my supervisor's "creative accounting" got to be very difficult to deal with. As the one who was responsible for reporting the figures from the database, I was instructed to do a variety of increasingly questionable things.

Although a certain, separate fund was not counted in any previous year's total, I was instructed to add this fund's income into the general Annual Fund total for this year.

When I refused to alter the data entry of <gift date> from the postmark on various gifts received by mail, my supervisor made a point to volunteer to photocopy gifts himself on crucial days during the end of certain months and did not copy the envelope, which indicated the postmark.

At year's end, many, *many* gifts that were received—either by mail or by hand in late January or even early Feb-

ruary were posted to the prior year's income. I explained that this was not only wrong but illegal! He dismissed my objections as "not understanding what was at stake."

There were certain things I would do, such as lump this fund with that fund. It was money earned, just being counted together. There were other things I refused to do, such as list funds earned on dates when they weren't. When I refused to falsify dates, my boss just threw away documentation so that I had no idea when donations were legally received. I no longer work at that organization.

Pressured

*Dear Pressured,*  
*You don't need any advice from the Ethicist. It seems as if you got it right every time, including by quitting. The Ethicist cringes every time he hears of supervisors telling subordinates to do something that is flat-out wrong. Subordinates do their supervisors a favor by pointing out the consequences of their illegal, unethical or just plain dopey instructions. It's hard to do—someone should award medals to people with the backbone to instruct a boss.*

*Some people seem to think that disregarding Generally Accepted Accounting Principles is not as serious as breaking the law. Maybe no one will lock them up if they fudge the books but recordkeeping is very serious business.*

*If records are a mess, they are a useless source of information for management. The organization's leaders will have no way of knowing whether their fundraising methods are working. As for erroneous dating of year-end gifts, your former boss had better pray that none of his big donors ever get audited, because the gift will be disallowed for that year and they will probably be angry with the organization. (You can bet they won't blame themselves.)*

Dear Nonprofit Ethicist, This may be a well-worn issue, but it has re-emerged for me recently. Is my understanding dated? The issue in question is the reporting on multiyear pledges of restricted grants, primarily from institutional sources, but equally from larger, restricted multiyear pledges from individuals. This topic is covered by the Financial Accounting Standards Board (FASBE) publications #116 and #117, although it may not be as crystal clear as it would seem.

For example, I am aware of a large organization that does not report multiyear pledges from major corporations, but rather, reports on each annual payment as though it were an independent grant. The CFO and auditors feel that because of the restricted nature of the grant, the donor may not honor the full annual grant payments, and / or because the organization may not accomplish each of the deliverables stated in the

grant proposal such that the donor may wish the funds returned. This organization has never been asked to return grant money and has an excellent reputation with these donor groups, having received numerous multimillion-dollar, multi-year grants over the past ten years. The way I read FASBE #116, and the way it has been interpreted by every other organization with which I've been associated, the full grant commitment needs to be recorded as income in the year the gift commitment is made. Failing that, at the very least it would be footnoted in the audited financial statement. Neither is happening in this organization and the full commitment is not being recognized other than in the annual payments. In so doing, over \$1 million in committed income, is invisible.

The CFO feels that this approach helps the organization look more like it needs the money than if it were recorded as a receivable, but I feel that donors don't give to our need but to our effectiveness, and the more we show we've raised, the more confidence donors will have in making similar gifts. While I think FASBE #116 is clear, their interpretation may be technically defensible. I feel that the intent of FASBE #116 is to ensure that to the extent possible donors and the public have an accurate and transparent reporting of gifts, grants and other revenues regardless of such technicalities. Even if technically defensible, this seems misleading. What say you?

Grantman

*Dear Grantman,*  
*Pledges extending beyond the current year are ordinarily reported as temporarily restricted revenue. If the CFO and auditors believe that the donor may not pay in full, the proper procedure is to establish an allowance for doubtful accounts. You say they also have reason to believe the organization may not accomplish each of the points of a restricted grant. That is not an accounting issue; it is downright*

*unethical. If the organization doubts its ability to perform, it should not accept the money.*

*Just for fun, let's explore the "logic" of their decision. They don't want to book pledges when they receive them because of concerns over nonperformance, but they book cash when they receive it. What could happen between getting the pledge and getting the cash that could caused them to change their minds about the organization's ability to perform? Nothing occurs to me—they just cannot avoid booking cash. They are just as likely to fail to perform. Therefore they are accepting a pledge under false pretenses. The Ethicist believes there is a close connection between good ethics and good management. This case is a good illustration: a donor who asks for money back is unlikely to give anything again.*

Dear Nonprofit Ethicist,

While teaching in the local school of a country town in Australia, I volunteered to produce a weekly newsletter for our local church. It is supported by various small advertisements from the parish businesses, one of which was a coach company. Toward the end of the year, I arranged to take students on a camping trip to Uluru (Ayers Rock) in the center of Australia. I got quotes from the two coach companies in town which included provision of tents and catering for the week-long trip. Yes, you guessed it. I went with the company that didn't advertise in the parish newsletter. And he canceled his advertisements with a few choice words to me. I would do the same again, I think, but I still squirm remembering his comments.

Unhappy Camper

*Dear Unhappy Camper,*  
*Bravo. You did the right thing. After all, you did ask him for a quote. He had no right to expect more. He is confusing advertising with bribery.*

Dear Nonprofit Ethicist,  
I sometimes wonder about the following

practice: A consultant or other vendor agrees to charge the nonprofit client its standard fee and then in return make a contribution to the organization so that the organization's net cost is less. Do you see any issues with this approach? This has been proposed as a "better" approach than discounting fees up front since then the organization may book the costs of doing business as less than what it would actually take if the provider were not so generous—or perhaps the organization should book at standard cost and show an in-kind contribution—if the two amounts are spelled out and not subsumed into one discounted rate?

Wondering

*Dear Wondering,*  
*The Ethicist prefers keeping the two transactions separate. Many services are not tax-deductible and valuation of contributed goods is always dicey. (Nonprofits are prohibited from providing the donor with an estimate of value.) Having a vendor charge a market rate and make an offsetting cash gift clearly establishes both the price of the good or service and the amount of the gift.*

*The tricky part comes when a vendor charges you more than market, but when the cash gift is figured in, you appear to be paying less than market. Be careful. Do not be blinded by a vendor gift. Perhaps you could find a vendor who would charge less and give a larger gift. Your "generous" vendor could be like the advertiser in the previous letter.*

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