

## RESEARCH ARTICLE

# The Relationships between Accounting and Fundraising Campaigns

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## Abstract

The main objective of this paperwork is to emphasize over the connection between the accounting and fundraising campaigns inside the nonprofit organizations. It comprises the way that these two are interrelated as the accounting information is facilitating the well development of such campaigns. For reaching this objective, we have established the research background by briefly defining the nonprofit organizations and the fundraising campaigns. Also we have pointed out and analyzed the interrelationships between accounting and fundraising. This paper will present a particular situation, such as the support that Romanian government gives to the fundraising campaigns within the nonprofit organizations. We will highlight the imposed procedure, its impact on the accounting; the potential limits of recording and some improvement suggestions. We imply that the fundraising is essential for the nonprofit organizations because of the financial resources that it is generating, resources without which the activity of organizations wouldn't be possible.

**Keywords:** *Accounting, Campaign, Fundraising, Nonprofit organization.*

## Introduction

Over time, societal development has resulted in varied situations involving specific issues and topics. Some of these cases have been solved by founding non-governmental organizations who took part in them, thus supporting more or less the authorities within the community in which their activity is developed. Nonprofit organizations are non-governmental organizations, named by the law foundations, associations or federations according to their specificity. As we have mentioned, the nonprofit organizations have an active role within the community and therefore they deserve our attention.

Same as other entities, the nonprofit organizations need resources to fulfill their purpose. Their nonprofit character is embodied many times in the lack of any economic activity that generates incomes. Hence the nonprofits must focus towards specific methods and techniques of self financing. The topic's importance is highlighted by the existence of financial resources which binds the nonprofit organization's activity.

If we have to consider the accounting implications,

one of this would be supporting the internal users of the accounting information during the decisional processes. Applying this principle to nonprofits' funding, we observe it should be a certain connection between accounting and fundraising campaigns. Taking into consideration all the reasons above, we reckon that this study is essential to the field.

## Research Methodology

The hypothesis that we propose to validate throughout this paper is that in the absence of accounting, a fundraising campaign cannot be developed at its best performance. As objectives we point out the ways of recording of all transactions and financial operations generated by fundraising. Also we want to analyze the way that accounting has an impact over the planning and developing of such event and the accounting role to assure a feedback for the sponsors and donors.

The methods used during the research were the literature and law review and the study of empirical situations within NGO referring to fundraising. We have chosen to critically analyze these situations to underline the interrelationship between the accounting and fundraising campaigns.

## The Research Background: Defining the Concepts

The name "nonprofit organization" is generally used to refer to those entities that are not aimed to make a profit. These organizations, in legal terms, in Romania take the form of

associations and foundations as defined in Law no. 246/2005 approving Government Ordinance no. 26/2000 on associations and foundations as presented in the following tabl

**Table 1: Definitions of types of nonprofit organizations in Romania**

The Nonprofit organization types:

Association	Foundation	Federation
"is the legal entity formed by three or more persons who, according to an agreement, are pooling and not subject to refund material contribution, knowledge or contribution in labor with the purpose of carrying out activities in the general interest of some communities or, where appropriate, in their private prerogatives." [12]	"is the legal entity established by one or more persons on the basis of a legal act between the living or upon death and constitutes a patrimony permanently and irrevocably affected to achieve a goal of general interest or, as the case of some communities." [12]	is the body established by the association of two or more associations / foundations for specific purposes

Source: author's construction based on law and literature

The main difference between the association and foundation relates to the role of patrimony. While the foundation achieves its purpose based on patrimony, association generally meets its objectives through voluntary work.

The term of "fundraising" means the activity of raising financial resources and it is often used in expressions like "fundraising campaign". Over time, this concept's meaning expanded and now it is referring to more than raising money. Its meaning includes the whole process of obtaining funds or others benefits for a nonprofit organization. This process involves managerial techniques and polices and a trained team for this kind of activity. It is defined as the total of the ONG's efforts made in order to ask for and gather voluntary contributions as money or other resources, by requesting donations from individuals, businesses, charitable foundations, or governmental agencies.

Fundraising activity is of high importance, especially in the countries with an advanced economy. There, the nonprofit organizations employ specialized persons, named fundraisers and many times this activity is externalized by contracting fundraisers.

As we already pointed out, the fundraising activity raised in the nonprofit organization due to their financial resources needs. Their activity can not rely only on the rarely ocasions when the donnors act out of their own initiative. But even in such cases the organization has to be promoted in order to announce the developed and planned activities.

## The Fundraising Role at the Macro and Microeconomic Level

"Generally speaking, a civil society's organization, acomplishes multiple roles simultaneously. An organization focused on promoting human rights, must be concerned about fundraising, managing human resources, planning a set of activities and it must react promptly to the different legislative changes." [10] Therefore, the fundraising campaigns are organized in a jointly relationship with the environment, being materialized in tranzactions with different players of the social game.

On the macroeconomic level, taking into consideration the Kaldor-Hicks efficiency, the developement could be seen as making better-off some groups by making worse-off others. Thus, the level of making better-off exceeds the level of making worse-off. If we add to this principle the fundraising activities, we could say that they are acting as a balance to society. Therefore, this could be seen in the surplus distribution from those who are better-off to certain social categories which are the target of the nonprofit organizations (those who are making worse-off.)

According to a SWOT analysis, [10] which evaluated the development opportunities of the Romanian civil society, one of the detected opportunities will be to enlarge the number of the professionals in the fundraising field. Therefore we have observed that is imperative for Romanian civil society to focus on fundraising; and this, due to the partial or total lack of it within most of the nonprofit organizations. We can not adopt any fundraising tehniques, which

are well operating in other countries. They need to be adapted to the cultural, institutional and economic particularities of the country where they are developed and so working within its macroeconomic background.

The specific characteristic of the nonprofit organizations is that they have a public interest activity in various fields without pursuing their self enhancement. Thus their funding is a very important activity; also because as any other entity, they need financial resources in order to reach their main objective for which they were founded. Indeed, there are some personal contributions from the part of founders and members, but as many times, working commonly with such resources, is not enough for the well being of the organizations, nor for their settled objectives. As a result, various fundraising techniques rised and a real management was developed over time.

If we look to the organization as a fine defined system, we can notice that there is a straight connection between the fundraising activity and the other system's components and otherwise as well. The direct connection can be between fundraising and:

The organization management-decides regarding the developed activities;  
 The employees and the volunteers-the active elements during the campaign;  
 The accounting and financial department-records the tranzactions generated by the fundraising and provides the necessary informations for planning and evaluating the activity;  
 The cash-flows-are directly influenced by such activity through the expences and incomes generated by fundraising.

Being powerfull connected to all the elements of the organizational system, the fundraising activity deserves a particular attention.

## The Fundraising Impact in Accounting

We can state that there is a tied relationship between fundraising and the activity of financial and accounting department. The first reason could be the costs generated by this activity, especially if it is externalized. In the Romanian Chart of Accounts, there is no special account for this kind of expenses and incomes. We recommend that the way of reflecting this elements is important to be improved. The

realised incomes can be recognized as "incomes from donations" or "incomes from various activities". There is no specialised category for incomes gained in a fundraising campaign. Considering the complexity of the fundraising activity and the matching principle it could be implemented a manner of record using cross accounts. In this way these accounts will later represent the source for evaluating the activity in terms of efficiency.

In the case of fundraising campaigns which aim to raise resources in order to open a new department or a new subsidiary of the organization, the expenses made during the campaign could be recognized as intangible assets, according to Romanian regulations which are in accordance with the European ones. Moreover the accounting treatment regarding this kind of expenses is similar to the other intagible assets. They are amortized over an establish period, which the manager has to approve it, but no longer than five years in Romania.

On the other hand, the acquirement of resources suppose realising financial investments in human resources, both employees and volunteers. These investments must be also recorded and they are regulary recognised as expenses of the period when are financing a program developed over a fiscal year. The Romanian regulation has no specifications regarding such investments developed during more than one fiscal period. Therefore their manner of recording is up to the accountant.

## The Accounting Impact over the Fundraising Activity

Every time we are talking about the management, we are implicitly talking about decisions, which are taken based on certain information. Here it is involved the accounting, which is the system used to provide information for the management level, the information that they need in order to make their decisions.

Therefore the accounting and financial department provides the necessary information for the planning and organization of the fundraising activities. Such an activity is generally budgeted based on the data generated from accounting.

The main aspects which define the accounting's role within the decisional process, including the one that refers to fundraising, could be:

To the different decisional levels it provides the essential information to make decisions and plans, even though it is about drawing up plans to reach the strategic objectives (strategic planning) or short-term operational plans (budgeting);

Supports the managers in managing and control the developed activity;

Motivates the managers and the other employees and charges corrective actions in order to realize the established plan;

Measures the performance of the developed activities, of the managers and other employees.

Practically, regarding the fundraising campaigns, the essential indicators provided by the accounting, could be:

The targeted amount that should be raised and the period of the campaign;

Information provided by the financing activity's budget;

The estimated amount to be raised during the campaign (based on the ones from the last years) and the estimated period necessary for the fundraising in order to establish how rough must be the campaign; The maximum estimated cost of fundraising campaign.

Moreover the accounting is the activity which indicates the utility of such a campaign regarding the activity of raising financial resources for nonprofit organizations. The activity proves to be profitable or not for the organization, if the generated resources by the campaign exceed the efforts taken in order to organize the campaign. The Romanian accounting system is poor concerning the record of the transactions and operations issued by the fundraising campaign. Therefore the competences of the employees from the accounting department are challenged by using their professional reasoning and finding the best and most practical ways to record such a program.

There are various manners of developing a fundraising campaign: personal and verbal requests, phones calls, mail requests, mass-media appeals, organizing cultural and

social events and others like these. Choosing the way to develop the campaign suppose to compare the cost of the activity and the estimated funds to be raised during the campaign. This comparison is made based on the information provided by accounting. That is way the accounting is playing a very important role regarding the optimal way chosen for the development the campaign.

The donors are motivated to answer by supporting the organization mainly because they follow to their interests (e.g. they contribute to the creation of a balanced financial system, they protect the human rights, and help disadvantaged people). Also, in order to be persuaded, the donors have to clearly understand the nonprofit organization's mission. Besides these, the donors can be led by motivation concerning:

The estimated results of the funded activity, which are corresponding to the personal wishes and expectations;

Particular interests: the organization in cause creates the belief that it could support them back (this phenomena it could happen deliberate or not, based on realities which can or can not be impersonal);

Social pressure: the donor supports the organization because it is influenced by the decisions of those from his group / environment;

The way of request was well chosen (e.g. the person who requests was persuasive).

Overall, we can notice that the accounting information has a significant role regarding the motivation and the encouragement of the donors. One of the reasons, for instance, is that the information concerning the estimated results are provided by the accounting department. This is remarkable important also because the systemic success in fundraising activity can be ensured only by understanding the potential donors' motivations.

### **A Special Situation: The Contribution of the Romanian state to Supporting Fundraising**

In Romania fundrising practices are incipient and only few non-profit organisation carry out such activities, and those who have started such campaigns have come across citizens' reluctance showed in various forms.

The Romanian State lends support to nonprofit organisations with a legal provision regarding their financing. Through Law no 571/2003 as amended, the nonprofit organisations can benefit by up to 2% of the paid income tax if the taxpayer decides.

Redirecting the 2% from income tax follows a relatively simple process, which requires filling in a form for a natural person for the wage income tax and for other incomes. There is a column intended for directing within the form where taxable income is declared. Directing is free of charge, it does not result in any additional expense to the person who chooses this and moreover, this is optional and it can be carried out by any natural person receiving profit from wages and other such profits. The amounts that come to nonprofit entities after this process are part of the state budget.

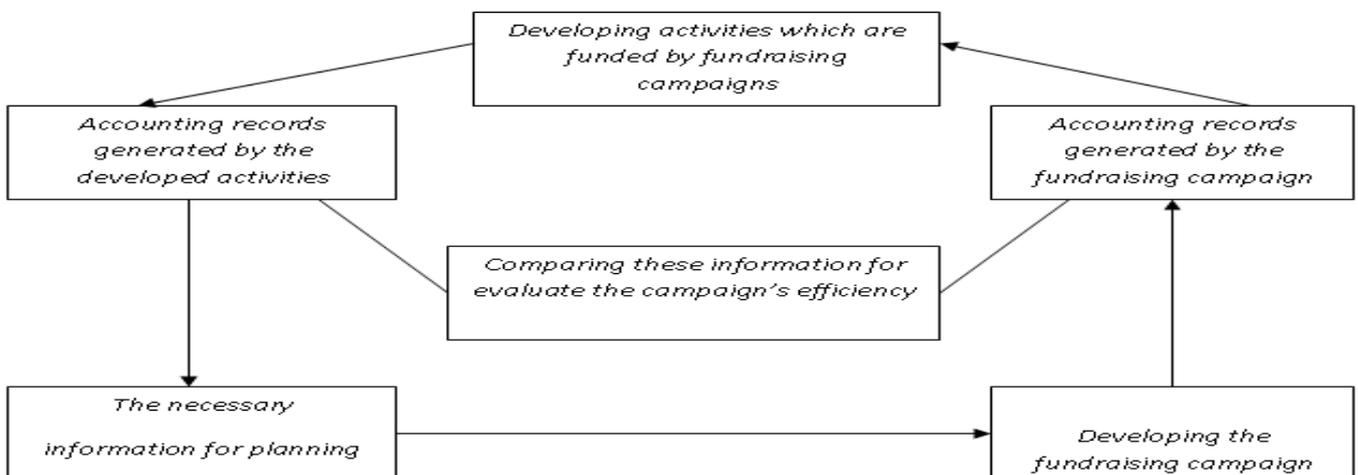
In this context, in Romania, the fundraising activity is done within many organisations by asking individuals about directing this amount of the income tax. According to the National Agency of Finance concerning the 2% campaign in 2010, the total nongovernmental entities that benefited from this regulation was 24.891. Regarding the amount directed for the fiscal year 2010, that was 26,776,974 euro, so we can observe a slight decrease of 3% over the previous year, when the amount directed was 27,677,055 euro. Of the total number of people who were able to direct a part of the state income tax, 1.648.313 people used that provision, representing a rate of

approximately 25%. However, the number of people who directed 2% of the tax increased in 2010 over the previous year with 7%, when the number of people who redirected was 1.535.203. These facts speak about how well-known and applicable is the legal provision, and also about the widespread of the so-called fundraising campaigns which target at the regulation mentioned here.

Regarding the nonprofit organization, the efforts concerning „the 2% campaign” are to contact people as well as bearing the bank transaction tax so that the amount gets in the account of the organization. For the Public Financial Administration the process of directing the amounts seems rather slow, since the money reach the recipients three or four months after the end of the fiscal year. Moreover, the law is unclear concerning the expression: why „up to 2% of income tax?” What is the methodology for determining the amounts for the Public Financial Administration in this context? This concern is strictly related to the legal regulations which are sometimes unclear, insufficient or inappropriate for the specific of the organisations to which they refer to.

### Results and discussions

Referring to the non-profit organisation as a system, we have noticed how fundraising activity is dominating and it is being dominated by the components of the system. Among all interrelationships, we have focused on the fundraising-accounting relationship. Based on what we have previously presented, we can summarise the information through the following figure.



**Fig. 1 : The inter-relationship between accounting and fundraising**

Source: author's construction

We can notice that this relationship is cyclic, namely that a fundraising campaign is planned based on the data given by accounting as regards the financial needs of the organisation. Once the fundraising campaign is in progress all operations and transactions performed within are reflected in the accounts, which it produces new accounting information. Another interrelationship emerges when evaluating the fundraising campaign. The evaluation of the campaign occurs when comparing the information resulted after the records of the ongoing campaign with the information resulted after the ongoing activity which was funded through the campaign.

Regarding the way in which the Romanian state supports the fundraising activities through the „2% of income tax” campaign, we present here a number of issues that were diagnosed.

The process of transferring the directed amounts seems cumbersome and slow, after the end of the fiscal year it lasts several months until the amounts reach the beneficiary organizations. Time being the inconvenient, the managers cannot decide on the amounts when they don't know the date of the transfer. They have problems in terms of determining how to use the amounts that are to be received. Moreover, there is no possibility of quantifying the amounts nor their recognition in accounting when the income is earned, it is only recognized when the amount is collected. This is an anomaly given the operation in accrual accounting. In such a context, the nonprofit organization should be able to know the amount from the income tax based on the form filled up by the donor. This implies the registration of the given amount

and it can be simply calculated, such as: the donor applies the 2% of income tax which was transferred in the previous year. The amount of the income tax shall be communicated to the employee through monthly payslip and every year through individual tax record.

## Conclusions and Suggestions

We consider that presenting and analysing the interrelationship between accounting and fundraising enables the hypothesis established and it becomes obvious that without accounting, a fundraising campaign cannot take place under favourable circumstances.

The fundraising accounting is not sufficiently developed in our country. Because we have noticed how strongly its reflection in accounting influences the ongoing fundraising activity, we suggest some improvements. Rethinking the way it is reflected, it might be a starting point to map the revenues and expenses produced by the fundraising activity, precisely because for every income earned, there is an effort and their connection facilitates the evaluation process of the campaigns and the planning of further such activities.

Concerning the directed amounts of income tax we suggest to clarify the legal provision, which represents the only way to resolve the issues we have raised. Clarifications may refer to improving the mechanism for setting the directed amounts, but also methods of transfer, so that nonprofit organisations may carry out accrual accounting related to these amounts and also to be able to assign them to specific activities.

We consider that by applying the suggestions we have stated, the accounts of the fundraising campaigns can be improved, so that it leads to the improvement of managing such activities.

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