What Do We Mean by 'Annual Fund'?

My own favorite definition of the Annual Fund (today, anyway!) is something like:

"The Annual Fund includes: (1) Gifts that are made in response to Annual Fund solicitations that (2) underwrite budgeted expenses and (3) are repeatable/replaceable."

In my view, those are the gifts that are the basis of an Annual Fund program that can

-- be managed effectively,
-- have meaningful goals, and
-- be compared meaningfully across fundraising years.

Taking these components in turn:

(1) Gifts that are made in response to Annual Fund solicitations

Restricting the Annual Fund to gifts that are made in response to Annual Fund solicitations is perhaps somewhat circular, but it eliminates a lot of generally fruitless (and often inflammatory) effort trying to examine a lot of disparate gifts to see if they can be made part of the Annual Fund. ("Can't we take that $500 gift to the counseling center, made by a parent grateful for their services, for the Annual Fund, and use it to underwrite the Counseling center budget, rather than give the Counseling center more resources, which is pretty clearly what the parent intended?")

If you start with a solicitation for the Annual Fund, and the solicitation explains the role and importance of the Annual Fund in supporting the budgeted expenses of the college, and a gift that is made in response to that solicitation is further designated, it seems to me that you're on pretty safe ground applying it to the budgeted expenses of whatever activity is indicated.

(2) underwrite budgeted expenses

Why "underwrite budgeted expenses," rather than "unrestricted"?

Based on my own experience, the intersection between fund raising and accounting with respect to an Annual Fund is that the institutional budget is looking for a certain contribution from the advancement office that can be used to underwrite the budgeted expenditures of the organization. That's usually built into each year's budget.

Certainly, unrestricted support can be used for this purpose.
On the other hand, some temporarily restricted support can also be used for this purpose! For example, a big budget item at most colleges and universities is financial aid. If a donor makes a contribution designated for financial aid, which can be used to underwrite the financial aid budget, that means that a corresponding portion of the financial aid awarded will not have to be funded from general revenue. That financial aid gift underwrites budgeted expenses every bit as much as an unrestricted gift. Is such a financial aid gift restricted or unrestricted? Actually, your institution has the option of treating it either way (as long as the corresponding expense occurs in the same year as the gift). Does the organization's particular choice of accounting treatment affect the fact that the gift does underwrite the current year's institutional budget? Not at all. Is such a financial aid gift considered part of the annual fund? It would be in most of the institutions where I've worked -- and appropriately so, in my opinion. It underwrites budgeted expenses. It's a "budget-relieving" gift.

(Other temporarily restricted gifts definitely don't underwrite budgeted expenses. Suppose someone came along and made a gift to place a fountain on campus, and that this fountain is not something that the institution has anticipated, requested, planned, or budgeted for. It's a temporarily restricted gift. The fountain may enhance the campus environment. But that gift doesn't do a thing to pay for financial aid, salaries, electricity, or anything else that actually are in the budget, and which still need to be paid for.)

(3) are repeatable/replaceable

At the same time, I would not want to include unrestricted estate gifts or other one-time gifts as part of Annual Fund, even though they may clearly be available to underwrite budgeted expenditures. That makes it very difficult to have comparable Annual Fund totals from year to year, since those gifts are not repeatable/replaceable.

I've worked for institutions that counted everything that wasn't nailed down as part of the Annual Fund, including unrestricted estates (usually to make a more or less unreasonable goal imposed by the finance office, which was, in turn, wrestling with some genuinely tough budget issues). Anyway, my summary of one of those programs was that, with respect to the Annual Fund goal, "one third would come from the phonathon and direct mail annual fund solicitations, one third would come from the annual fund component of major gift asks, and one third we would only get if it fell from the sky." That was pretty close, too, with the last category primarily involving undesignated estates and memorial gifts. Some years it fell from the sky, and some years it didn't. Not a great way to do business, in my opinion.
(This is obviously an internal, working definition of the Annual Fund, not what I would put in a mailing or on a web page! That would be more like, well: http://www.gettysburg.edu/administration/giving/annual_giving/index.html)

Here endeth the sermon! (For any of you who are still awake!)

My US$0.02.

(And, by way of a disclaimer, you might want to note that I sit on the Advancement Services side of things, and not on the Office of Annual Giving side! For what it’s worth.)

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