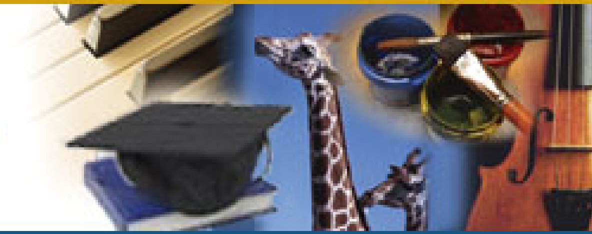

Accounting for Fundraising Costs: A Reminder on Proper GAAP

By Dyan Reinhold, CPA

The increased availability of financial data has made it clear that a diversity of practices exist when it comes to accounting for these costs. This article is meant to be a refresher on some of the considerations that impact what to account for as fundraising costs.

Fundraising costs should include all costs associated with an organization, inducing potential donors to provide a gift to the organization. Gifts may take the form of cash, assets, pledges or time. Costs include all activities related to the fundraising operations such as mailing list development/maintenance, event coordination, and the management of such operations and related activities. Generally accepted accounting principles (GAAP) also require that the amount spent on fundraising be disclosed.

GAAP suggests that direct assignment of costs to fundraising activities is preferable to other methods where possible. For example, it is far better to track time spent by an individual in fundraising than to just use a global allocation of time spent. Areas that tend to be allocated to fundraising costs include occupancy, which should be calculated using estimates of square footage of space utilized and full time equivalents. If allocations are used, they should be reviewed periodically. For example, if an organization has long assumed that 20% of a person's time is spent on fundraising, it would be useful to review and verify that this allocation rate is still accurate. The same would follow for postage, space and other areas where costs may be allocated.

GAAP also requires that revenues and expenses be presented on a gross basis. If your organization uses professional outside fundraisers who take a portion of the funds raised, you must report the revenue gross and the corresponding cost of the consultant as fundraising. This revenue cannot be presented on a net basis. Similarly, organizations that obtain funds via federated fundraising processes like the United Way must report revenue on a gross basis, with the fee charged reflected as fundraising costs. These should not be presented net.

There are special considerations in allocating costs to fundraising when a so called "joint activity" occurs. A joint activity is when a program, management and general, or some combination of these two, become part of a fundraising process. The rules require consideration of purpose, audience and content and include some challenging hurdles to overcome in order to allow for the allocation of joint costs among functions benefited. While a detailed review of joint activity rules is beyond the scope of this article, if your organization is making such allocations it would be wise to review the rules carefully to ensure that such costs meet the required criteria that permit such allocation. There are also additional disclosures required in the financial statement footnotes if your organization is allocating costs under these standards.

We believe that accounting for fundraising costs is going to receive increased attention by the IRS and third parties in the years ahead. We recommend that organizations review their approach to ensure that full and faithful fundraising cost reporting is taking place.

If you have any questions related to accounting for fundraising costs, contact your CBIZ Tofias & Mayer Hoffman McCann Not-for-Profit & Education advisor, or you may reach us at notforprofit@cbiztofias.com and 617.761.0060.

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