

Fund-Raising Events Present Accounting Challenges

By Angela Fink, CPA

One of the most exciting aspects of working with not-for-profit entities is being part of the passion within their organization. Whether they provide healthcare expertise, social services, arts, or legal advice, the members of not-for-profit organizations are working toward achieving a mission, rather than making a profit. Fundraising is an integral part of many not-for-profit organizations, and accounting for special fund-raising events often proves challenging. This article is intended to address some of the basic rules of accounting for special events.

Special events are unique to not-for-profits, and organizations often rely on annual events as a significant source of annual revenue to enhance other annual giving initiatives. In essence, the organization is putting their ability to fund programs into a small number of events. This differs from the for-profit business entity, which relies on consistently generating revenues over time to sustain the business.

Typical examples of fund-raising events are gala dinners, golf outings, trivia nights, and other game events such as bowl-a-thons, walks or bike rides. Organizations are required to report revenue and expenses from special events on the statement of activities as gross amounts if the events are part of the organization's ongoing major or central activities. However, if the events are incidental to the organization's central activities, special event revenue and expenses may be reported either as gross or net amounts on the statement of activities (FASB ASC 958-225-45-14 and 45-17).

When hosting a fund-raising event, organizations must separately track the direct costs of the event and the direct benefits to donors. Organizations are required to provide donors with documentation of the tax-deductible portion of the ticket price. For example, ABC Organization hosts an annual gala dinner. The ticket price is \$100. Each meal costs the organization \$35 and has a fair value of \$50. ABC would therefore issue donor acknowledgement letters to attendees for a charitable deduction of \$50. The fair value of what the donor received is considered an exchange transaction and that amount is, therefore, not deductible. Other costs related to hosting the event, such as site rental, do not impact the amount that is deductible by the donor. As a side note, costs incurred for printing notifications for the event and postage should be classified with fund-raising expenses rather than charged to the specific special event because the notification is ultimately an appeal for donations.

When reporting gross revenue and the costs of direct benefits to donors related to special events on the statement of activities, organizations have several reporting alternatives, including the following (FASB ASC 958-225-55-11 through 55-15):

- a) Presenting the costs of direct benefits to donors as a line item deducted from special event gross revenues;
- b) Presenting special event gross revenues in the revenue section and costs of direct benefits to donors in the same section as other programs or supporting services (and allocating expenses among the various functions, if necessary); or
- c) Presenting the contribution and exchange portions of the gross revenues separately, with the costs of direct benefits to donors deducted from the exchange portion of the gross revenue.

As an example of the three display alternatives above, assume an organization hosts a dinner as an ongoing activity. Donors pay \$100 each to attend the dinner. The dinner costs the organization \$30 and has a fair value of \$50. The organization also incurs other costs in connection with the event, which include costs of \$10 that would otherwise be considered management and general costs and printing and postage costs of \$15. Those costs are unrelated to the direct benefits of the donors and, therefore, are not included as costs of benefits to donors. The organization also has the following transactions unrelated to the special event:

- a) Unrestricted contributions of \$500;
- b) Program expenses of \$100;
- c) Management and general expenses of \$20;
- d) Fund-raising expenses of \$20.

Alternative A:		
The organization's statement of activities would reflect the following:		
CONTRIBUTIONS AND NET REVENUES FROM SPECIAL EVENTS		
Contributions		\$500
Special events revenue	\$100	
Less: Costs of direct benefits to donors	(30)	
		<u>70</u>
Contributions and net revenue from special events		570
EXPENSES		
Program	100	
Management and general	20	
Fundraising	<u>45</u>	
		<u>165</u>
Increase in unrestricted net assets		<u>\$405</u>

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Alternative B:		
The organization's statement of activities would present the following:		
REVENUES		
Contributions		\$500
Special events revenue		<u>100</u>
		600
EXPENSES		
Program	\$100	
Costs of direct benefits to donors	30	
Management and general	20	
Fundraising	<u>45</u>	
		<u>195</u>
Increase in unrestricted net assets		<u>\$405</u>

Alternative C:		
The organization's statement of activities would present the following:		
CONTRIBUTIONS AND NET REVENUES FROM SPECIAL EVENTS		
Contributions		\$550
Dinner sales	\$50	
Less: Costs of direct benefits to donors	<u>(30)</u>	
		<u>20</u>
Contributions and net revenue from special events		570
EXPENSES		
Program	100	
Management and general	20	
Fundraising	<u>45</u>	
		<u>165</u>
Increase in unrestricted net assets		<u>\$405</u>

Tax Information

Special events are reported on Schedule G of the 990 for events that have gross receipts greater than \$5,000. Schedule G reporting requires expenses associated with special events be categorized as follows:

- a) Cash prizes
- b) Non-cash prizes
- c) Rent and facility costs
- d) Food and beverages
- e) Entertainment
- f) Other direct expenses

There is also expanded disclosure required for tax reporting purposes when an organization hires a professional fund-raising firm to perform fundraising on behalf of that organization.

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