

## Section 6140

### *Not-for-Profit Organizations*

#### **.20 NPOs Reporting No Fund-raising Expenses**

*Inquiry*—Some not-for-profit organizations (NPOs) with contributions report no fund-raising expense. Paragraph 13.34 of the AICPA's Audit and Accounting Guide *Not-for-Profit Organizations* provides that the financial statements should disclose total fund-raising expense. Do circumstances exist in which an NPO could have contributions but minimal or no fund-raising expense?

*Reply*—It would be unusual for an NPO to have contributions but have minimal or no fund-raising expense. Examples of circumstances in which an NPO could have contributions but minimal or no fund-raising expense typically include those in which (a) because of name recognition or custom, donors contribute to the NPO without the NPO undertaking fund-raising activities,<sup>1</sup> (b) fund-raising activities related to those contributions are conducted entirely or almost entirely by volunteers whose contributed services do not meet the recognition criteria for contributed services in paragraph 9 of FASB Statement No. 116, or (c) other organizations that

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<sup>1</sup> Fund-raising activities include, but are not limited to, compensating another entity for raising funds on behalf of the NPO, such as circumstances in which the fund-raising entity retains an administrative fee for raising funds on behalf of the NPO.

the NPO does not control<sup>2</sup> contribute to the NPO with the NPO undertaking minimal or no fund-raising activity or other participation in relation to those contributions.<sup>3,4</sup> Examples of circumstances in which an NPO with

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<sup>2</sup> SOP 94-3, *Reporting of Related Entities by Not-for-Profit Organizations*, defines control as "the direct or indirect ability to determine the direction of management and policies through ownership, contract, or otherwise."

<sup>3</sup> As discussed in paragraph 13.58 of the NPO Guide, "Federated fundraising organizations solicit and receive designated and undesignated contributions and make grants and awards to other organizations. The fund-raising activities of these organizations, including activities related to fundraising on behalf of others, should be reported as fund-raising expenses."

<sup>4</sup> As discussed in TPA 6140.22, *In Circumstances in Which the Reporting NPO Undertakes a Transaction in Which Another NPO (Fund-raising NPO) Raises Contributions on Behalf of the Reporting NPO, and the Reporting NPO Compensates the Fund-raising NPO for Raising Those Contributions (Compensation Including, but not Limited to, an Administrative Fee), Should the Reporting NPO Report the Fund-raising NPO's Compensation Gross as Fundraising Expenses or Net, as a Reduction of Contributions?*, reporting NPOs should report fund-raising expenses for compensation to a fund-raising NPO acting as an agent or intermediary in circumstances in which the fund-raising NPO acting as an agent or intermediary retains an administrative fee that will be deducted from all contributions that are to be transferred to the donor's chosen organization. That fact pattern is an example of a circumstance in which other organizations that the NPO does not control contribute to the NPO (through an agent or intermediary) with the NPO undertaking minimal or no fund-raising activity or other

contributions may have no fundraising expense or minimal fund-raising expense in relation to contributions include:

- A religious organization obtains most or all of its contributions from member tithing.
- Most or all contributions arise from volunteers making phone calls or writing letters on the organization's behalf (and this volunteer activity does not meet the recognition criteria for contributed services in paragraph 9 of FASB Statement No. 116).
- An organization has no paid staff, and most or all contributions arise from uncompensated board members soliciting contributions (and this board member activity does not meet the recognition criteria for contributed services in paragraph 9 of FASB Statement No. 116).
- The reporting organization is a private foundation or is supported by a private foundation, and the reporting organization expends no or minimal resources in soliciting those contributions.
- The reporting organization obtains most or all of its contributions from one or more organizations that it does not control (fund-raising NPO), expends minimal resources, and has minimal participation in soliciting those contributions.<sup>5</sup> For example:

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participation in relation to those contributions, and the NPO would report fund-raising expense.

<sup>5</sup> Footnote 4, in referring to TPA 6140.22, discusses a circumstance in which other organizations that the NPO does not control contribute to the NPO (through an agent or intermediary) with the NPO undertaking minimal or no fund-raising activity or other participation in relation to those contributions, and the NPO would report fund-raising expense.

- NPO Relief and Development Organization is one of many entities devoted to cause ABC. NPO Relief and Development Organization receives most or all of its contributions from Relief and Development Organizations in the USA, Canada, and the United Kingdom that raise support for cause ABC throughout the world.
  
- NPO Religious Organization Denomination International Mission Board receives a substantial portion of its support from the NPO Religious Organization Denomination, which supports various entities and causes, including but not limited to NPO Religious Organization Denomination International Mission Board. NPO Religious Organization Denomination allocates, at its discretion, X percent of its contributions from supporting churches and individuals to NPO Religious Organization Denomination International Mission Board.

The reporting NPO should consider, however, whether it is required to make financial statement disclosures required by FASB Statement No. 57, *Related Party Disclosures*, and AICPA SOP 94-6, *Disclosure of Certain Significant Risks and Uncertainties*.

**.21 Should an NPO Report Amounts Charged to the NPO by a Professional Fund-raiser Gross, as Fund-raising Expenses, or Net, as a Reduction of Contributions**

*Inquiry*—In circumstances in which a professional fund-raiser charges an NPO for soliciting contributions on the NPO's behalf, should the NPO report amounts charged to the NPO by the professional fund-raiser gross, as fund-raising expense, or net, as a reduction of contributions?

*Reply*—In circumstances in which a professional fund-raiser charges an NPO for soliciting contributions on the NPO's behalf, the NPO should report the amounts charged to the NPO by the professional fund-raiser gross, as fund-raising expense. As discussed in paragraph 13.18 of the NPO Guide and paragraph 24 of FASB Statement No. 117, revenues and expenses should be reported gross (except for investment revenues and related expenses, which are permitted to be reported net of related expenses, as discussed in paragraphs 8.10 and 13.27 of the NPO Guide), while gains and losses may be reported net. Accordingly, in circumstances in which an NPO incurs expenses by hiring a professional fund-raiser to solicit contributions on its behalf, the NPO should report those contributions and expenses gross, rather than net. For example, assume NPO A enters into a transaction with Professional Fund-raiser B, whereby Professional Fund-raiser B solicits contributions on behalf of NPO A, for a fee of 20 percent of contributions raised. Professional Fund-raiser B raises \$100,000 and remits \$80,000 to NPO A after retaining its fee of \$20,000. NPO A should report \$100,000 contribution revenue and \$20,000 fund-raising expense.

**.22 In Circumstances in Which the Reporting NPO Undertakes a Transaction in Which Another NPO (Fund-raising NPO) Raises Contributions on Behalf of the Reporting NPO, and the Reporting NPO Compensates the Fundraising NPO for Raising Those Contributions (Compensation Including, but not Limited to, an Administrative Fee), Should the Reporting NPO Report the Fund-raising NPO's Compensation Gross, as Fund-raising Expenses, or Net, as a Reduction of Contributions?**

*Inquiry*—In some circumstances, a federated fund-raising organization (or other NPO) (fund-raising NPO) acts as an agent or intermediary rather than a donee. For example, in circumstances in which the fund-raising NPO receives resources from donors who stipulate that those resources should be transferred to a specified NPO, the fundraising NPO acts as an agent or intermediary rather than a donee.<sup>6</sup> The NPO compensates the fund-raising NPO acting as an agent or intermediary. (Such compensation includes, but is not limited to, the fund-raising NPO retaining an administrative fee that will be deducted from all contributions that are to be transferred to the donor's chosen organization.) Should the reporting NPO report the compensation to the fund-raising NPO acting as an agent or intermediary gross, as fund-raising expenses, or net, as a reduction of contributions?

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<sup>6</sup> In some circumstances, the fundraising NPO receives resources from donors without stipulations or with stipulations sufficiently broad such that the fund-raising NPO acts as a donee, rather than as an agent or intermediary.

*Reply*—The reporting NPO should report fund-raising expenses for the compensation to the fund-raising NPO acting as an agent or intermediary in circumstances in which the reporting NPO compensates the fund-raising NPO acting as an agent or intermediary for raising contributions on behalf of the reporting NPO. (Such compensation includes, but is not limited to, the fund-raising NPO acting as an agent or intermediary retaining an administrative fee that will be deducted from all contributions that are to be transferred to the donor's chosen organization.) Accordingly, the reporting NPO should report the amount retained as compensation by the fund-raising NPO acting as an agent or intermediary gross as fund-raising expenses and report contributions for the gross amount contributed from the donor to the fund-raising NPO acting as an agent or intermediary for the benefit of the reporting NPO.

Paragraphs 25–28 of Appendix A, “Illustrative Guidance,” of FASB Statement No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust Raises or Holds Contributions for Others*, discuss, among other matters, circumstances in which a federated fund-raising organization acts as an agent or intermediary, rather than a donee, in raising contributions in which the donor specifies the organization to which the contribution should be transferred. As discussed in paragraph 27 of FASB Statement No. 136, in circumstances in which the federated fund-raising organization charges an administrative fee that will be deducted from all contributions that are to be transferred to the donor's chosen organization, the beneficiaries should report the gross amount of the contributions as contribution revenue and the administrative fees withheld by the federated fund-raising organization as expenses. The guidance in paragraphs 25–28 of FASB Statement No. 136 would also apply if the fund-raising NPO were other than a federated fund-raising organization. Also, in functionalizing the administrative fees reported as expenses, the

reporting NPO beneficiary would classify those expenses as fund-raising.