



Will New Accounting Rule Doom Your Fundraising?

A new rule will change the way you allocate your costs. How will it affect your fundraising efforts?

Q We have heard about a new accounting rule that will cost us money by forcing us to allocate more of our costs as fundraising. Can you explain what this new rule is? Is there anything we can do to keep it from devastating our budget? We are a 501(c)(3) health group dealing with cancer, and we send out many educational packets about cancer prevention. As I understand it, we must now allocate the expenses of all these mailings as fundraising costs. Is this true?

A First, the bad news. Yes, there is a proposed accounting rule that will change the way nonprofits allocate their costs. Many activities that combine fundraising with program or management expenses will need to be allocated totally as fundraising costs.

Next, the good news. Your educational mailings need not fall into that category. With proper planning, you can arrange your mailings so that they qualify as “program” or “management and general function” costs rather than fundraising costs.

Let’s look at some background. The rule you mention is a proposed statement of position (SOP), known as revised SOP 87-2. On September 10, 1993, the American Institute of Certified Public Accountants (AICPA) issued an exposure draft for this proposed SOP. The draft is titled “Accounting for Costs of Materials and Activities of Not-for-Profit Organizations and State and Local Government Entities that Include a

Fund-Raising Appeal.” It would revise SOP 87-2, “Accounting for Joint Costs of Informational Materials and Activities of Not-for-Profit Organizations that Include a Fund-Raising Appeal.” The AICPA has not yet issued a new SOP based on the exposure draft, but one is expected by the end of this year.

The portion of the proposed SOP that could cause changes to an organization’s cost classifications include the following:

- The costs of all materials and activities that include a fundraising appeal should be reported as fundraising costs, including costs that are otherwise clearly identifiable with program or management and general functions, *unless* a bona fide program or management and general function has been conducted in conjunction with the appeal for funds.
- If a bona fide program or management and general function has been

conducted in conjunction with an appeal for funds, the joint costs of those activities should be allocated. Costs that are clearly identifiable with a fundraising, program, or management and general function should be charged to that cost objective.

- Criteria of purpose, audience, *and* content must all be met in order to conclude that a bona fide program or management and general function has been conducted in conjunction with the appeal for funds.

It’s important to note that the proposed SOP applies *only if* the material or activity costs include a fundraising appeal. A fundraising appeal is designed to motivate the recipient to provide financial support to the organization. The proposed SOP says that an organization may include the words “Contributions to Organization X may be sent to address” on materials and *not* have any costs allocated as fundraising.

The criteria tests (purpose, audience, and content) examine the circumstances of the materials or activity to decide how the costs should be classified. If one criterion is not met, then all material or activity costs are considered fundraising costs. Let’s look at these three criteria.

1. The purpose criterion is met if the organization has similar materials or activities without a fundraising appeal. If



it doesn't, the purpose criterion can still be met by evaluating other factors. These factors include the following:

- the method of compensation for performing the appeal
- the method of evaluating the performance of the appeal
- the different media used
- the qualifications and duties of personnel
- the tangible evidence of the appeal. Tangible evidence may include examining the organization's mission, minutes of meetings in which the appeal was discussed, written instructions to individuals working on the appeal, and internal management memos.

2. The audience criterion could cause the most changes in allocations because it requires that recipients be selected based on factors other than likelihood to donate funds. Documentation

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should include why the targeted audience will benefit from the materials or activities and the source of the audience list.

3. The content criterion applies, first, to the content of programs. It requires that programs call for specific action by the recipient. This action must help accomplish the organization's mis-

sion and must be unrelated to providing financial or other support to the organization. This criterion also applies to the content of management and general functions. It requires that management and general content should report on mission accomplishments or inform supporters about the organization's stewardship performance.

It is important to an organization's budget to evaluate the materials or activities of a fundraising appeal in the planning process. The proposed SOP provides 12 examples of ways to apply the criteria tests. It would be beneficial for you to review these examples and consult your auditor to determine how best to allocate your fundraising appeal costs. There are sure to be ways that will let you structure your fundraising appeal while still meeting your desired cost allocations.

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