

Reporting Nonprofit Overhead: Problems and Solutions

Ken Wing, Mark Hager, Tom Pollak,
Patrick Rooney

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Study Goals

- Understand how nonprofits raise, spend, measure and report funds for fundraising and administration
- Work with practitioners, policy makers and the accounting profession to improve standards and practice
- See it all at www.coststudy.org

Multiple Research Phases

- Analysis of IRS Form 990 data, $n \approx 228,000$
- Survey of fundraising and accounting practices, $n \approx 1500$
- Detailed case studies, $n = 9$

Implausible 990s

- 37% of IRS Forms 990 reporting over \$50K in private contributions report ZERO fundraising or special event costs
- Ditto for a quarter of NPOs reporting \$1-5M, and 18% reporting over \$5M, in contributions
- A quarter of NPOs reporting some fundraising costs report over \$15 in contributions for each dollar spent: under 7 cents per dollar raised
- 13% of Forms 990 report ZERO management and general expenses

About Those Overhead Ratios...

- Of the 2/3 of NPOs under \$500K, 16% reported no M&G, 3.4% reported 100% M&G, and 1.5% did not report functional costs
- 12% of all NPOs reported all staff as M&G; 13% reported all staff as program
- Under 1/2 report salaries for officers in Line 25. Of those that do, 12% reported it as all program, 1/3 as all M&G.
- 7% charged all accounting fees to program; 1/5 split them across categories

Behind the Numbers: Survey Findings

- Only 1/3 tracking staff time by category each payroll period
- Of NPOs getting grants from foundations, only 25% charge the grant proposal writing costs to fundraising
- Of NPOs getting grants from government, only 17% charge the grant proposal writing costs to fundraising

Case Study Findings: Reporting

- Retrospective annual allocation of personnel expense. Accuracy questionable
- Glaring functional expense reporting errors
- Nonprofits responding to pressure to keep real and reported overhead low
- Capital gifts and in-kind donations create unique reporting problems
- Form 990 offers a different picture than GAAP for conglomerates and those leveraging donated space and services

Conclusions

- Underreporting of overhead spending by nonprofits is significant and widespread
- Comparisons based on reported numbers can easily lead to flawed conclusions
- Three sources of reporting problems
 - Weak accounting staff and systems
 - Intentional underreporting
 - Unique nonprofit accounting issues

Recommendations: Capital Gifts

- For depreciable items:
 - Adopt and disclose implied-time-restriction policy
 - Recognize gift as item depreciates
 - Permitted by SFAS 116
- For non-depreciable items
 - Segregate capital from operating items in activities statement
 - Permitted by SFAS 117

Recommendations: In-Kind Donations

- Segregate monetary from in-kind transactions in activities statement
- Permitted by SFAS 117

Recommendations: Form 990

- Follow GAAP except where a clear public purpose is served
 - Consolidated reporting
 - Classification by restriction
 - In-kind donations
 - Other variations
- Provide for segregated reporting of capital and in-kind transactions

Contact Information

- Mark Hager, Senior Research Associate, Center on Nonprofits and Philanthropy, Urban Institute, 2100 M Street NW, Washington, DC 20037, 202-261-5345 Mhager@ui.urban.org
- Thomas Pollak, Assistant Director, National Center for Charitable Statistics, Urban Institute, 2100 M Street NW, Washington, DC 20037, 202-261-5536 tpollak@ui.urban.org
- Patrick Rooney, Ph. D., Director of Research, Center on Philanthropy, Indiana University, 550 West North St, Suite 301, Indianapolis, IN 46202-3272, 317-684-8908, rooney@iupui.edu
- Ken Wing, Kennard T. Wing & Co., 224 Kathmere Rd., Havertown, PA 19083, 610-789-8727, kennarwing@aol.com