

## The Nonprofit Overhead Cost Project

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The goal of the authors' five-year Nonprofit Overhead Cost Project was to understand how nonprofits raise, spend, measure, and report funds for fundraising and administration, and to work with practitioners, policymakers, and the accounting profession to improve standards and practice in these areas. The overall study had three major phases:

- Analysis of more than 250,000 IRS Form 990s
- In-depth case studies of nine organizations
- 1,500 responses to a survey of U.S. nonprofits

An exploratory survey of nonprofit auditors was also conducted.

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A variety of publications from the Nonprofit Overhead Cost Project, resources for nonprofit financial management, and useful links related to nonprofit accounting can be found at [www.coststudy.org](http://www.coststudy.org).

## Steps to Improve Nonprofit Reporting

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- Many users of nonprofits' financial statements place primary emphasis on expenses by functional classification, so nonprofits should treat the allocation of expenses as an important audit issue.
- CPAs should urge nonprofits to adopt staff timesheets and to use them for functional-cost allocation.
- CPAs should apply the same standards to Form 990—the crucial public disclosure document for nonprofits—that they do to their audit and attest work.
- Nonprofits should report all contributions on Line 1d of Form 990, regardless of whether they are unrestricted, temporarily restricted, or permanently restricted.
- Nonprofits should report the value of donated space and services in Part IV-A and Part IV-B of Form 990 to avoid the appearance of excessive overhead.
- Nonprofits that comprise multiple, affiliated legal entities not covered by a group exemption letter should appropriately allocate management-and-general and fundraising costs to all reporting entities on Forms 990.
- CPAs should use the management letter to identify and raise concerns about the quality of functional expense accounting. If these concerns are not addressed, the CPA firm should protect itself by insisting on notes in the financial statements. Finally, if improvements still do not take place, the CPA firm should consider a qualified opinion letter.