{ SPONSORSHIPS }
Supplement: How to Track Sponsorship Dollars

BOARD IN A BOX PRINCIPLE

✔ Track sponsorships in the operating budget.

Sponsorship Accounting

One of the most basic AMA Board in a Box Principles is to “Pay For Nothing.” Typically this means to do your best in getting paid and trade sponsors to help cover many of your typical out-of-pocket expenses.

While many chapters do a great job in securing these sponsors (especially in-kind), the accounting of such services can sometimes get lost in the shuffle.

The following steps will help your chapter provide all the checks-and-balances to ensure full accounting of sponsor participation within the chapter.

1. Consider setting a cash sponsorship goal in addition to in-kind goals clearly outlined with your annual plan and ensure it is updated quarterly along with your other annual plan elements

2. Look to see what cash expenses are being incurred and explore if any can be provided via trade

3. Always have a sponsorship contract – even if it’s in-kind – that clearly outlines the services that are being provided and the value of those services.

4. Ensure that you are keeping a regular update of what sponsors are active and account for what they are providing throughout the year in order to ensure it’s accurate for CEA submission

5. Ensure your bookkeeper is keeping accurate track each month of cash on monthly income statement as they would member dues, lunch fees, etc.

6. Consider an addendum to your financial statements that outlines your in-kind sponsors and be open to providing each the appropriate tax form they may need to take credit for that service

Defining Sponsorship Value

The value of an in-kind sponsorship can vary greatly. Always request the value amount from the organization providing the products or services and track that information accordingly. Some examples of how to assign value to in-kind sponsorships are below:

- *Volunteer hours* – Use the individual’s hourly wage to calculate the in-kind value of his/her time.

- *Services rendered by an individual* – Use the individual’s typical rate for the services being provided or the individual’s hourly wage to calculate the in-kind value.

- *Services rendered by an organization* – Use the organization’s typical rate for the services being provided to calculate the in-kind value.

- *Discounted products or services from an individual or organization* – Determine the amount that was discounted from the typical price of the products or services provided and apply that amount as in-kind value.

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Sponsorship Guidelines to US Contributions and Exchanges

In-Kind Donations
For specific questions on how chapters should deal with in-kind donations, it is best to contact a local CPA. Listed below are general guidelines chapters may wish to follow if someone wishes to make a donation for a chapter event or to assist in the operation of a chapter.

Contributed Goods (and Dollars)
In order for a transfer of goods (or performance of services, described in the next section) to be considered as a contribution, any assets received by the donor must be of substantially lower value than what was given.

For example, if a company individual gives a chapter a $500 event sponsorship but received 10 tickets, each worth $25, to the event in return, the actual tax-deductible donation is $250, not $500. However, if a sponsoring company is simply listed on the program, the entire contribution would likely be tax deductible.

In order to protect the tax deductibility of donors' contributions, chapters should always issue receipts (especially for donations of $250 or more) indicating the dollars donated or describing property donated (do not attempt to value the property).

The receipt must also include a good faith estimate of fair market value of any goods or services provided in return. Contribution income would be included by the chapter in its financial statements, as would an equal amount of cash or an expense (e.g., "Supplies" if a chapter was given card stock for invitations).

Special rules may apply for donations over $5,000, so seek advice from an accountant for any donations over this amount.

Contributed Services
Because of the rules regarding contributed services, very few chapters need to account for them in their financial statements. Contributions (not exchanges) of services are recorded only if one of two conditions is met:

1. The services "create or enhance non-financial assets," like constructing or rehabbing a building

or

1. The services "require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation." In general, this refers to services provided by professionals (e.g., accountants and lawyers) and trades people. Therefore, most of the services donated to chapters (such as mailing or A/V services) would not be reported.

Even if one of these criteria is met, chapters do not need to account for immaterial amounts (in this case, services valued at less than 5% or 10% of total contributions).

For those few chapters which do receive material and contributed services and undergo an annual audit by independent auditors, some financial statement disclosure is required. In these cases, the auditors can provide more information. As there is no tax advantage for donors of services, receipts are not issued in this case.

Exchange Transactions
An exchange transaction occurs when both parties receive something of value from an exchange at what is determined to be a fair-market value. For example, if a chapter is selling t-shirts to its members, then the chapter is getting a fair price for the t-shirt, and the member is getting a t-shirt. If the chapter is only

selling goods with the AMA logo to members, it is considered related income to the chapter. However, if a chapter is selling goods to non-members, then it may be considered unrelated business income. Check with a local CPA for clarification.

In another scenario, if a company wishes to advertise in a chapter's newsletter, then that exchange transaction will automatically trigger unrelated business income. The chapter should discuss such issues with its accountant regarding this transition.

Sponsorship is an exchange transaction that is complex. Sponsorship is done to generate goodwill rather than advertising (which is intended to sell a product) or a donation (which is a free-will gift). Thus, sponsorship falls somewhere in between advertising and a donation. Advertising is a taxable-deductible business expense to the company and is considered unrelated business income to the chapter. donation is a gift freely given by a company with nothing provided in exchange from the chapter. Sponsorship is a gift by a company for something in return from the chapter (goodwill, name recognition), but the return is limited to inclusion of a company's name or logo on a chapter brochure/event/website and a link limited to the company homepage; the company cannot sell anything directly. While sponsorship is not technically a donation, nor is it technically advertising, it can be restricted under certain circumstances. Thus, if nothing other than a company's name and logo is included at a chapter's event or on a chapter's website, then the IRS considers this a sponsorship, and this sponsorship is business expense to the company, not a donation, and it is not considered unrelated income for the chapter. However, if the company's name/logo is included on the chapter's website and it links to anything other than the company's homepage, the IRS considers this unrelated business income. The chapter should discuss such issues with its accountant before entering into the transaction.

<u>Contribution Levels Requiring an Audit</u>
Rules regarding the level of contribution revenue requiring an audit vary from state to state. For example, the threshold is currently $300,000 in the State of Illinois, while some other states do not have any limit. Contact your state's Attorney General's office for specific information.