

Common Errors on the T3010 related to fundraising costs

Know how to avoid them

Focus of presentation

Many errors that charities make in the reporting of their fundraising expenses on the T3010 occur because of one or more of three factors

The three factors are:

- Confusion with what is and is not a fundraising expense
- Allocating fundraising expenses to the wrong expense reporting line on the T3010 (lines 4800 to 4920)
- Improperly re-allocating expenses to the appropriate 5000 series line on the T3010

We will reference statistics from two reports that analyzed data related to this topic.

These reports are:

- Perspectives on Fundraising – an Imagine Canada report commissioned by the Muttart Foundation, released in 2009
- Community Sector Council analysis of the fundraising reporting of Atlantic Canada charities, based on 2008 CRA data, unpublished

Factor One

**Confusion with what is
and is not a fundraising expense**

What is a fundraising expense?

As per CRA policy, fundraising is defined as an activity that:

- includes **A SOLICITATION OF SUPPORT** for cash or in-kind donations
- includes the sales of goods or services to raise funds
- is part of the research and planning for future solicitations of support
- is related to a solicitation of support (efforts to raise the profile of a charity, donor stewardship, donor recognition, etc.)

Fundraising activities include those carried out by the internal staff or volunteers of your charity or by an external agent for your charity

Thus, expenses related to these activities are considered fundraising expenses

Some expenses are easy to determine and others less clear

Clearly designed as a Fundraising Activity

Sale of goods (e.g. chocolate bars)
Fundraising Gala/Auctions
Charitable Gaming

General guideline

If a receipt is provided, then expenses related to activity are 100% fundraising

Allocate 100% of expenses to fundraising expense lines

Might have a fundraising component

Activity might have multiple purposes (e.g. both charitable and fundraising)

CRA has the Substantially All and Four Part tests to help

Allocate a percentage of these expenses as fundraising

Charities should review CRA guidelines to clarify how to allocate a percentage of expenses

Activities not considered fundraising

The following activities are not considered fundraising:

- Requests for funding from government/other registered charities
- Recruitment of volunteers (for non-fundraising activities)
- Carrying on a related business

Expenses related to these activities are not fundraising and should be reported on a “non-fundraising” line on the T3010

e.g. Cost of developing a funding proposal for a government contract would be considered an Administrative and Management expense and reported on Line 5010 on the T3010

We have a handout to help you determine what is and is not a fundraising expense

Factor Two

Allocating fundraising expenses to
the wrong expense reporting line
on the T3010

(expense reporting lines are 4800 to 4920)

Once your charity determines if an expense is fundraising

**Your charity must report
their expenses on the T3010
in a two step process**



Must report the
expense on one of
lines 4800 to 4920



**then re-categorize the
expenses into one of the
5000 series
“SUMMATIVE LINES”**

5000	Charitable Purposes
5010	Administration and Management
5020	Fundraising
5030	Political
5040	Other

Allocating expenses

Your charity's expenses must be allocated to one of the expense reporting lines from 4800 to 4920

- Each reporting line represents a different category of expense
 - e.g. Line 4810 is Travel and Vehicle
- Fundraising expenses are not separated from other expenses (e.g. expenses for charitable programs) when reporting on these lines, but need to be isolated for reporting on the 5000 series lines
- The summative total of all expenses is reported on Line 4950

Common errors in this first step are:

- Summative total on Line 4950 \neq Sum of individual lines 4800 to 4920
- Expenses are allocated to the wrong reporting line
- Expenses with multiple purposes are not allocated to different functions properly (e.g. how much should be considered fundraising)

We have a separate presentation and handout that provides a detailed analysis of these reporting lines

Factor Three

**Improperly re-allocating expenses
to the appropriate 5000 series line
on the T3010**

The 5000 series reporting lines

All expenses must be allocated to one of the following 5000 series lines on the T3010.

These are “**Summative Reporting Lines**” and identify the total expenses your charity incurred for each specific function of the charity.

The functions and reporting lines are:

- Line 5000 Total Charitable program expenditures
- Line 5010 Total Administration and Management expenditures
- Line 5020 Total Fundraising expenditures
- Line 5030 Total Political activity expenditures
- Line 5040 Total Other expenses

The total expenditures reported in each function category should be consistent with the information on your charity’s financial statement.

Findings from the Community Sector Council Study 2010 - 2011

The Community Sector Council (CSC) conducted an extensive analysis of the fundraising reporting data of 6977 Atlantic Canada charities (from 2008 CRA data)

- In this study, CSC compared the fundraising data on the Financial Statements (FS) and the T3010 of a random sample of 270 charities

This study identified common errors related to 5000 series lines:

- Data is not being transferred from FS to the T3010
- Data is being incorrectly transferred from FS to the T3010
- Reporting net figures instead of gross figures for fundraising calculations
- Reporting fundraising expenses on the wrong line
- Reporting non-fundraising expenses on the Line 5020

We will look at these errors in more detail in the next slides

**We have a separate presentation
on the findings of this CSC analysis**

Charities are not transferring data from their FS to the T3010

Expenses are identified on a charity's financial statements, but not recorded on the 5000 reporting lines on the T3010

Result:

Expenses are not broken down and transferred to the 5000 series lines so that individual functions can be analyzed

e.g. What percentage of a charity's expenditures were allocated to their charitable programs?

Not reporting fundraising expenses on Line 5020 makes it difficult to determine information about fundraising practices

e.g. What is the charity's fundraising ratio?

Is your charity filling in the 5000 series lines?

Charities are making errors transferring information

Charities are making errors when transferring fundraising data from their Financial Statements to their T3010

In the comparison analysis, one in every four charities reported incorrectly on the T3010 while one in every six failed to report a portion or all of their fundraising expenses on the T3010 – CSC Report

Where errors could be identified, the most common errors occurred in the reporting of fundraising expenses, not revenues.

Fundraising revenues were reported consistently on the FS and the T3010; however, there was a significant difference in the reporting of fundraising expenses when we compared the their financial statements with the T3010

- *The average expense reported on the FS was \$37,360*
- *The average expense reported on the T3010 was \$17,943*

Double-check to see that the FS and T3010 data matches; especially fundraising expenses

Charities are using net figures instead of gross figures

Charities are recording net fundraising data on certain T3010 reporting lines, instead of using gross fundraising data

Result:

Some fundraising expenses are not reported on Line 5020 because the expenses were deducted from the gross fundraising revenue before being reported on T3010.

For example, Charity A reports \$10,000 in fundraising revenue and \$5,000 in fundraising expenses on their financial statements.



On the T3010, they report \$5,000 in fundraising revenue and \$0 in fundraising expenses on Line 5020.

Ensure your charity is reporting gross fundraising revenue, not net

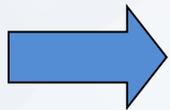
Note: Revenue from bingo/lotteries and special events are the most common types of fundraising that are reported erroneously as net revenue.

Charities report fundraising expenses on the wrong line

An expense identified on the FS as a fundraising expense is not reported on Line 5020 as a fundraising expense

Result:

Your charity's total expenditures for fundraising reported on Line 5020 of the T3010 would be inaccurate.



Your charity's total fundraising expenses would be underreported. This would affect the calculation of your charity's fundraising ratio

This error can sometimes be attributed to fundraising revenue being listed on the wrong T3010 line. When this occurs, expenses associated with the revenue will usually get reported on the wrong T3010 line.

Errors often happen on these two lines:

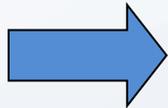
- **Line 4640** – Total revenue from sale of goods and services (except to government)
- **Line 4650** – Other revenue

Charities report non-fundraising expenses on Line 5020

An expense identified on the FS as a non-fundraising expense is reported as a fundraising expense on Line 5020.

Result:

Your charity's total expenditures for fundraising reported on Line 5020 of the T3010 would be inaccurate.



Your charity's fundraising expenses would be over-reported. Expenditures towards other functions might appear to be lower than desirable (e.g. if charitable program expenses are counted as fundraising expenses)

Examples of this type of error are:

- Expenses associated with a grant application to government or another registered charity – should be reported on Line 5010
- Expenses associated with the sale of goods and services related to charitable programs - should be reported on Line 5000

Final Thoughts – Reflections from research studies

In 2009, Imagine Canada and the Muttart Foundation published “Perspectives on Fundraising”. Data within this report revealed that Canadian charities tend to make errors in reporting on their T3010.

One of the summary comments in this report was:

“There appears to be substantial room for improvement in the quality of the information provided and it is difficult for anyone to obtain an accurate picture of charitable fundraising activities”

CSC also conducted a separate comparison and analysis of the fundraising reporting data on the FS and T3010 of Atlantic Canadian charities

Both reports had similar findings, patterns of data, and concerns with the reporting practices of charities with respect to fundraising

We will finish this presentation by highlighting key findings from these studies that will help to focus the review of your T3010 before submitting to CRA

There is a high frequency of data errors in fundraising reporting

One-third of charities had at least one readily identifiable error in reporting on their T3010 Information Return.

Table 3 – Total number of data errors for organizations of various revenue sizes, 2007

	% of Population	At least 1 error	At least 3 errors
Less than \$30,000	29.0%	42%	16%
\$30,000 to \$99,999	22.9%	35%	9%
\$100,000 to \$249,999	18.8%	29%	6%
\$250,000 to \$499,999	10.9%	25%	5%
\$500,000 to \$999,999	7.3%	22%	4%
\$1,000,000 to \$9,999,999	8.9%	22%	4%
\$10,000,000 or more	2.1%	23%	5%

Note:
Error rate for smaller charities (revenues <\$100,000) is higher than for larger charities

The report identifies three types of fundraising data errors

- Simple arithmetic mistakes (often connected to SUMMATIVE lines)
- Errors of omission (charity did not count fundraising expenses)
- Inconsistencies in data that probably occur because of reporting errors

Charities made frequent data errors in reporting expenditures on the T3010

According to the “Perspectives on Fundraising” report, a significant number of charities made one of these errors related to expenditures:

Breakdown of expenditure addition (14.5% of charities)

- Charity broke down expenditures, but numbers do not add up to the correct total
- Line 4950 \neq Sum of Lines 5000, 5010, 5020, 5030, and 5040

Not identifying where expenditures go (13.9% of charities)

- Charity reports making expenditures, but does not indicate which expenditures are charitable, fundraising, management and administration, political activity, etc.
- Lines 5000, 5010, 5020, 5030, and 5040 = 0, but Line 4950 (total expenses) $>$ \$0

Not reporting any charitable expenditures (13% of charities)

- Charity reported being active, but did not report any charitable expenses
- Line 5000, 5050, 5060, 5070 (charitable program expenditures) = 0, but expenditures for Administration and Management (Line 5100) $>$ 0

Double check your expenditure data

Some data seemed inconsistent

According to “Perspectives on Fundraising” report:

84% of organizations report dollars received from tax-receipted gifts or fundraising revenues.

However of these charities that reported fundraising revenues:

Only 69% completed the checklist on the T3010 which identifies which type of fundraising methods they used.

- *Does that mean that 31% had fundraising revenue but did not use a fundraising method?*

Only 32% of these charities reported any fundraising expenses.

- *Does that mean that 68% of charities had no fundraising expenses despite having fundraising revenue?*

Are you identifying your fundraising methods on the T3010 and reporting all fundraising expenses?

Final suggestions to improve your fundraising report on the T3010

Clarify what is considered a fundraising expense

- Know what is a fundraising activity and thus what expenses must be considered fundraising (See Handout 1)
- Review the Substantially All and Four Part tests (CRA's Guidance on Fundraising) to see how they apply to activities that have multiple purposes

Ensure you are including all fundraising expenses on the T3010

It seems a significant number of charities are not identifying all of their fundraising expenditures on the T3010

- Have you included staff compensation costs for fundraising related activities?
- Have you allocated a percentage of multi-function activities as fundraising?

Further suggestions

Clarify the definition of reporting lines on the T3010

- Focus on the expense lines 4800 to 4920. We have a line-by-line presentation to help
- Track expenses by function to ease the transfer of data to the 5000 series lines and more easily isolate fundraising expenses

Improve the transfer of data from your Financial Statement to the your T3010

- Ensure information is transferred from your Financial Statement to the 5000 series “SUMMATIVE” reporting lines
- Ensure fundraising expenses on your Financial Statement are transferred to line 5020 (Total fundraising expenses) on your T3010
- Check out the accuracy of the data transferred from your Financial Statement to your T3010

Check us out!



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