



Accounting For Affiliates

As an idea, it's not a bad one: form an affiliate organization to raise funds or even hold assets for your nonprofit. After all, private nonprofits that are affiliates of government universities, museums, hospitals and the like do it all the time (often calling themselves something along the lines of "The University Foundation" or "Friends of the Museum").

The problem occurs when a nonprofit forms such an affiliate with the thought of maintaining assets off its balance sheet statement of financial position and on the affiliate's books.

Word To The Wise

Holding funds "off balance sheet" does have its appeal. But be careful as you consider the creation of affiliated organizations that provide services or raise funds for your nonprofit — it may have substantial financial implications.

Unique accounting rules pertain to relationships with affiliated organizations. In many cases, the "parent" entity is required to consolidate the financial statements of the affiliate into its own financial statements. Thus, everything certainly becomes public.

Turn To The Professionals

The specific accounting standards that apply to these types of affiliate relationships are found in FASB 136 and in The American Institute of CPAs Statement of Position 94-3, *Reporting of Related Entities by Not For Profit Organizations*.

In the end, your best bet may be to consult with one of our professionals who are well-versed in this very specific area of accounting.

