PKF O'CONNOR DAVIES
ACCOUNTANTS AND ADVISORS

Private Club Perspectives

Six Critical Actions to Maintain Financial Clarity Between Your Private Club and Its Charitable Organizations

By Kerri Rawcliffe, CPA, Partner

Many private clubs are interested in extending their impact beyond serving their members. In fact, there has been a shift for private clubs across the country to establish affiliated charitable organizations. Often organized as 501(c)(3) entities, these charities satisfy the club's desire to support their communities in new ways, such as through scholarships, community outreach, junior sports programs and other philanthropic initiatives aligned with the club's culture.

If your private club has a related charity, cleanly segregating your financials and operations is essential to ensure transparency, compliance and accurate reporting. Detailed below are six critical actions that can help you maintain financial clarity between your two entities.

1. Separate Your Accounting: 501(c)(7) Versus 501(c)(3)

Although your 501(c)(7) private club and its 501(c)(3) charity may share leadership, facilities or staff, it's important to remember that they remain separate legal and tax entities under IRS rules. This is a distinction that must be reflected in how your club records and reports revenue and expenses. Consider the following scenario:

- A club incurs expenses that relate to charitable activities, such as:
    - Paying its staff for organizing/supporting a charitable event or fundraiser.
    - Incurring program costs tied to the organization's charitable mission.

Considering your own club's accounting, it is critical that any financial activity of your charity be properly tracked so it is clear that activity belongs to your charity — not your club. Accurate accounting not only satisfies compliance requirements. It provides other benefits that you may not have initially considered: income received by your club related to charitable activities may be considered unrelated business income (UBI). Properly tracking related expenses can help offset that income.

2. Track Charity Expenses

Reinforcing the importance of clear and consistent accounting practices, it's critical to identify and segregate charity-related expenses in your club's records. This would include any costs that directly support the charity's programs or operations (e.g., charitable events, fundraisers, program materials administrative support, etc.).

Maintaining supporting documentation — invoices, receipts, internal cost allocations — is essential. Such records serve two purposes: they provide your charity with the information it needs to record the expense on its own books, as well as support your club's reporting obligations. Clearly tracking expenses also creates financial transparency between your two organizations.

3. Allocate Staff Time and Shared Resources

In many private clubs, it's common for its staff members to support both club and charity initiatives, which may be the case for your club as well. Perhaps your administrative team assists with scholarship applications, charitable tournaments or donor communications.

If your club's employees dedicate time to charity activities, that portion of their compensation should be allocated to the charity, which could include:

- Documented tracking of time spent (or estimates)
- Activity-based allocation
- Reasonable overhead rates to cover employer-related expenses (e.g., payroll taxes and benefits)

It should be noted that timely invoicing is an important component of resource allocation. Your club should immediately invoice your charity, detailing the staff time spent and any applicable overhead. This documentation ensures both entities maintain accurate records of the shared-resource utilization.

4. Record Intercompany Transactions

Whenever your club pays expenses for your charity, you must record those costs as intercompany transactions. From an accounting perspective, here are the steps:

- Your club should record a receivable from your charity for the expenses incurred.
- Your charity should record a corresponding payable and related expense when the invoice is received.

This approach mirrors how your charity would account for any third-party vendor invoice and helps ensure the appropriate recording of expenses between your entities.

5. Establish a Routine Invoice-and-Reimbursement Process

Establishing a routine invoice-and-reimbursement process — regardless of the cadence (monthly, quarterly) — can help keep both of your organizations aligned, with timely reimbursement from your charity being critical to maintain financial separation.

Regularly settling intercompany balances helps ensure that your charity appropriately bears the costs of its activities and prevents your club from inadvertently subsidizing charity operations.

6. Document to Support Compliance

Finally, comprehensive documentation remains one of the most important safeguards for both entities. Your club and its charity must both retain records that document:

- Expense allocations
- Compensation allocations and methodologies
- Intercompany invoices
- Reimbursement transactions
- Supporting program documentation

Clear documentation not only supports accurate financial reporting but also helps demonstrate compliance with IRS requirements.

Shared Missions ≠ Shared Finances

Private clubs and their charities often share a powerful connection through their commitment to community. But instead of sharing or co-mingling finances, they must maintain the integrity required of separate tax-exempt entities.

Following our critical actions can help your club effectively support your charities while maintaining operational efficiency and complying with applicable tax and reporting requirements.

Contact Us

We welcome the opportunity to answer any questions you may have related to this topic or any other accounting, audit, tax or advisory matters for private and taxable clubs. Please reach out to your PKF O'Connor Davies client service team or:

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