

Accounting for Costs of Activities that Include Fundraising

[PPCCode Links 45-28](#) This Subsection provides guidance on the following:

- a. Classification of the costs of a joint activity
- b. Allocation methods
- c. Incidental activities.

> Classification of the Costs of a Joint Activity

[PPCAICPASTandardCode Links 45-29](#) If the criteria of purpose, audience, and content are met, the costs of a **joint activity** shall be classified as follows:

- a. The costs that are identifiable with a particular function shall be charged to that function.
- b. **Joint costs** shall be allocated between fundraising and the appropriate program or management and general function.

If any of the criteria are not met, all costs of the joint activity shall be reported as fundraising costs, including costs that otherwise might be considered program or management and general costs if they had been incurred in a different **activity**, subject to the exception in the following sentence. Costs of goods or services provided in exchange transactions that are part of joint activities, such as costs of direct donor benefits of a special event (for example, a meal), shall not be reported as fundraising.

[PPCStandard 45-30](#) In circumstances in which a **not-for-profit entity** (NFP) that conducts joint activities has a functional structure that includes functional classifications other than fundraising, program, and management and general (see paragraph [958-720-05-6](#)), all costs of those joint activities shall be charged to fundraising (or the category in which fundraising is reported), unless the purpose, audience, and content of those joint activities are appropriate for achieving those other functions.

[PPC 45-31](#) Classification of costs incurred by an NFP for joint activities is based on the following criteria:

- a. The purpose criterion
- b. The audience criterion
- c. The content criterion.

45-32 Examples 1 through 16 (see paragraphs [958-720-55-36 through 55-159](#)) provide illustrations of the tests and analysis that are used to determine whether the criteria listed in the preceding paragraph are met.

>> Purpose Criterion

[StandardCode Links 45-33](#) The purpose criterion is met if the purpose of the joint activity includes accomplishing program or management and general functions.

[Standard 45-34](#) Paragraphs [958-720-45-35 through 45-39](#) provide guidance that shall be considered in determining whether the purpose criterion is met, specifically:

- a. If program functions are combined with [fundraising activities](#), paragraphs [958-720-45-35 through 45-39](#) provide guidance pertaining to program functions only.
- b. If program functions, management and general functions, or both are combined with fundraising activities, paragraph [958-720-45-38](#) provides guidance pertaining to both program and management and general functions.

>>> If Program Functions Are Combined with Fundraising Activities

[PPCAICPASTandardCode Links 45-35](#) To accomplish program functions, the activity shall call for specific action by the audience that will help accomplish the NFP's mission. Actions that help accomplish the NFP's mission are actions that do either of the following:

- a. Benefit the recipient (such as by improving the recipient's physical, mental, emotional, or spiritual health and well-being)
- b. Benefit society (by addressing societal problems).

[Standard 45-36](#) See paragraphs [958-720-55-4 through 55-5](#), which provide implementation guidance for determining whether an activity includes a call for a specific action. If the activity calls for specific action by the audience that will help accomplish the NFP's mission, the guidance in paragraph [958-720-45-38](#) shall also be considered in determining whether the purpose criterion is met.

[Standard 45-37](#) In circumstances in which joint activities are conducted, a presumption exists that expenses shall be reported as fundraising rather than as program or management and general. The following circumstances are insufficient to overcome that presumption:

- a. The purpose of the activity includes educating the public about [causes](#).
- b. The audience has a need or reasonable potential for use of any educational component of the activity pertaining to causes.
- c. The audience has the ability to assist the NFP in meeting the goals of the program component of the activity by becoming educated about causes.

To conclude that the criteria of purpose, audience, and content are met, program activities shall call for specific action by the recipient (other than becoming educated about causes) that will help accomplish the NFP's mission.

>>> If Program Functions, Management and General Functions, or Both Are Combined with Fundraising Activities

[AICPA Standard Code Links 45-38](#) The following factors shall be considered, in the order in which they are listed, to determine whether the purpose criterion is met:

- a. The compensation or fees test
- b. The separate and similar activities test
- c. The other evidence test.

45-39 See Examples 1 through 16 (paragraphs [958-720-55-36 through 55-159](#)), which provide implementation guidance for these three tests.

>>>> The Compensation or Fees Test

[Standard Code Links 45-40](#) The purpose criterion is not met if a majority of compensation or fees for any party's performance of any component of the discrete joint activity varies based on **contributions** raised for that discrete joint activity.

[PCC Standard 45-41](#) Some compensation contracts provide that compensation for performing the activity is based on a factor other than contributions raised, but not to exceed a specified portion of contributions raised. For example, a contract may provide that compensation for performing the activity is \$10 per contact hour, but not to exceed 60 percent of contributions raised. In such circumstances, compensation is not considered based on amounts raised, unless the stated maximum percentage is met. In circumstances in which it is not yet known whether the stated maximum percentage is met, compensation is not considered based on amounts raised, unless it is probable that the stated maximum percentage will be met.

[Standard 45-42](#) The compensation or fees test is a negative test in that it either:

- a. Results in failing the purpose criterion
- b. Is not determinative of whether the purpose criterion is met.

[Standard 45-43](#) In considering the guidance in paragraph [958-720-45-38](#), compensation or fees test is the preeminent guidance. Therefore, if the activity fails the compensation or fees test, the activity fails the purpose criterion and the separate and similar activities test shall not be considered.

[Standard 45-44](#) If the purpose criterion is not failed based on the compensation or fees test, this factor is not determinative of whether the purpose criterion is met, and the factor in the following paragraph and paragraph [958-720-45-46](#)(the separate and similar activities test) shall be considered.

>>>> The Separate and Similar Activities Test

[AICPA Standard Code Links 45-45](#) The purpose criterion is met if a similar program or management and general activity is conducted separately and on a similar or greater scale. That is, the purpose criterion is met if either of the following conditions is met:

a. The first condition is met if both of the following are true:

1. The program component of the joint activity calls for specific action by the recipient that will help accomplish the NFP's mission (see paragraphs [958-720-45-35 through 45-37](#)).

2. A similar program component is conducted without the fundraising component using the same **medium** and on a scale that is similar to or greater than the scale on which it is conducted with the fundraising. Determining the scale on which an activity is conducted may be subjective. Factors to consider in determining the scale on which an activity is conducted may include dollars spent, the size of the audience reached, and the degree to which the characteristics of the audience are similar to the characteristics of the audience of the activity being evaluated.

b. The second condition is met if a management and general activity that is similar to the management and general component of the joint activity being accounted for is conducted without the fundraising component using the same medium and on a scale that is similar to or greater than the scale on which it is conducted with the fundraising.

[Standard Code Links 45-46](#) If the purpose criterion is met based on the separate and similar activities test, the other evidence test shall not be considered. If the separate and similar activities test is not determinative, the other evidence test shall be considered.

>>>> The Other Evidence Test

[Standard Code Links 45-47](#) The compensation or fees test and the separate and similar activities test may not always be determinative because the attributes that they consider may not be present. If the factors in paragraphs [958-720-45-40 through 45-44](#) or [958-720-45-45 through 45-46](#) do not determine whether the purpose criterion is met, other evidence may determine whether the criterion is met. All available evidence, both positive and negative, shall be considered to determine whether, based on the weight of that evidence, the purpose criterion is met. See paragraphs [958-720-55-6 through 55-9](#), which provide implementation guidance for applying the other evidence test.

>> The Audience Criterion

[StandardCode Links 45-48](#) A rebuttable presumption exists that the audience criterion is not met if the audience includes prior donors or is otherwise selected based on its ability or likelihood to contribute to the NFP. That presumption can be overcome if the audience is also selected for any of the reasons in the following paragraph. In determining whether that presumption is overcome, an NFP shall consider the extent to which the audience is selected based on its ability or likelihood to contribute to the NFP and contrast that with the extent to which it is selected for one or more of the reasons in the following paragraph. For example, if the audience's ability or likelihood to contribute is a significant factor in its selection and it has a need for the action related to the program component of the joint activity, but having that need is an insignificant factor in its selection, the presumption would not be overcome.

[AICPASTandardCode Links 45-49](#) In circumstances in which the audience includes no prior donors and is not otherwise selected based on its ability or likelihood to contribute to the NFP, the audience criterion is met if the audience is selected for any of the following reasons:

- a. The audience's need to use or reasonable potential for use of the specific action called for by the program component of the joint activity
- b. The audience's ability to take specific action to assist the NFP in meeting the goals of the program component of the joint activity
- c. The NFP is required to direct the management and general component of the joint activity to the particular audience or the audience has reasonable potential for use of the management and general component.

>> The Content Criterion

[AICPASTandardCode Links 45-50](#) The content criterion is met if the joint activity supports program or management and general functions, as follows:


- a. Program. The joint activity calls for specific action by the recipient that will help accomplish the NFP's mission (see paragraph [958-720-45-35](#)). If the need for and benefits of the action are not clearly evident, information describing the action and explaining the need for and benefits of the action is provided.
- b. Management and general. The joint activity fulfills one or more of the NFP's management and general responsibilities through a component of the joint activity.

[PPCStandard 45-51](#) Information identifying and describing the NFP, its causes, or how the contributions provided will be used is considered in support of fundraising.

Standard 45-52 Activities that are undertaken as a result of receiving contributions are **management and general activities**. For example, activities conducted to comply with requirements of regulatory bodies concerning contributions that have been received are management and general activities.

PPCAICPA Standard Code Links 45-53 Activities that are undertaken in order to solicit contributions are fundraising activities. For example, activities conducted to comply with requirements of regulatory bodies concerning soliciting contributions, such as the requirement by some states or other regulatory bodies that certain disclosures be included when soliciting contributions, are fundraising activities. For purposes of applying this guidance, communications that include such required disclosures are considered fundraising activities and are not considered management and general activities.

> Allocation Methods

PPC Standard 45-54 The cost allocation methodology used shall be rational and systematic, it shall result in an allocation of joint costs that is reasonable, and it shall be applied consistently given similar facts and circumstances. See paragraphs **958-720-55-25 through 55-31**, which provide explanations and illustrations of some acceptable allocation methods. The allocation of joint costs shall be based on the degree to which costs were incurred for the functions to which the costs are allocated (that is, program, management and general, or fundraising). For purposes of determining whether the allocation methodology for a particular joint activity is consistent with methodologies used for other particular joint activities, facts and circumstances that may be considered include factors related to the content and relative costs of the components of the activity. The audience shall not be considered in determining whether the facts and circumstances are similar for purposes of determining whether the allocation methodology for a particular joint activity is consistent with methodologies used for other particular joint activities. A change in cost allocation methodology shall be evaluated in accordance with Topic  **250** to determine if it is a change in accounting principle.

> Incidental Activities

PPC Standard Code Links 45-55 Some fundraising activities conducted in conjunction with program or management and general activities are incidental to such program or management and general activities. In circumstances in which a fundraising, program, or management and general activity is conducted in conjunction with another activity and is incidental to that other activity, and the criteria in paragraph **958-720-45-29** for allocation are met, joint costs are permitted but not required to be allocated and may therefore be charged to the **functional classification** related to the activity that is not the incidental activity. However, in circumstances in which the program or management and general activities are incidental to the fundraising activities, it is unlikely that the criteria in that paragraph to permit allocation of joint costs would be met. See paragraphs **958-720-55-161**, **958-720-55-163**, and **958-720-55-165** for implementation guidance for incidental activities.