

## ADDITIONAL INFORMATION ON FUNCTIONAL EXPENSES

### EXCERPTS FROM ASC 958-720-45 OTHER PRESENTATION MATTERS

#### Functional Classification of Expenses

45-2

To help donors, creditors, and others in assessing an NFP's service efforts, including the costs of its services and how it uses resources, a statement of activities or notes to financial statements shall provide information about expenses reported by their functional expense classification, such as major classes of program services and supporting activities, for example:

- a. Program services
- b. Supporting activities, which often include one or more of the following:
  1. Management and general activities
  2. Fundraising activities
  3. Membership development activities.

45-2A

Activities that represent direct conduct or direct supervision of program or other supporting activities require allocation from management and general activities. Additionally, certain costs benefit more than one function and, therefore, shall be allocated. For example, information technology generally can be identified as benefiting various functions, such as management and general (for example, accounting and financial reporting and human resources), fundraising, and program delivery. Therefore, information technology costs generally would be allocated among the functions receiving direct benefit.

#### Program Services

45-3

Program services are the activities that result in goods and services being distributed to beneficiaries, customers, or members that fulfill the purposes or mission for which the NFP exists. Those services are the major purpose for and the major output of the NFP and often relate to several major programs. For example, a large university may have programs for student instruction, research, and patient care, among others. Similarly, a health and welfare entity may have programs for health or family services, research, disaster relief, and public education, among others. A federated fundraising entity's programs may include making contributions to NFPs supported by the federated fundraising entity. Paragraphs 280-10-50-1 through 50-19, although not required of NFPs, may be helpful in determining what constitutes major classes of programs and supporting activities.

45-4

Information about an NFP's major programs (or segments) can be enhanced by reporting the interrelationships of program expenses and program revenues. For example, a university might report expenses for its instruction and other academic services with related revenues from student tuition and expenses for its housing and food services with related revenues from room and board fees. Related nonmonetary information about program inputs, outputs, and results also is helpful; for example, information about applications, acceptances, admissions, enrollment and occupancy rates, and degrees granted. Generally, reporting that kind of information is feasible only in supplementary information or management explanations or by other methods of financial reporting.

45-5

The components of total program expenses shall be evident from the details provided on the face of the statement of activities, unless the notes to financial statements provide the information in paragraph 958-720-50-1(b).

### **Supporting Activities**

45-6

Supporting activities are all activities of an NFP other than program services. Generally, supporting activities include the following activities:

- a. Management and general activities
- b. Fundraising activities
- c. Membership development activities.

### **Management and General Activities**

45-7

Management and general activities include the following:

- a. Oversight
- b. Business management
- c. General recordkeeping and payroll
- d. Budgeting
- e. Financing, including unallocated interest costs pursuant to paragraph 958-720-45-24
- f. Soliciting funds other than contributions and membership dues, for example, the costs associated with:
  - 1. Promoting the sale of goods or services to customers, including advertising costs
  - 2. Responding to government, foundation, and other requests for proposals for customer-sponsored contracts for goods and services
- ff. Administering government, foundation, and similar customer-sponsored contracts, including billing and collecting fees and grant and contract financial reporting
- g. Disseminating information to inform the public of the NFP's stewardship of contributed funds
- h. Making announcements concerning appointments
- i. Producing and disseminating the annual report
- j. [Subparagraph superseded by Accounting Standards Update No. 2012-04].
- jj. Employee benefits management and oversight (human resources)
- k. All other management and administration except for direct conduct of program services (see paragraphs 958-720-45-3 through 45-5), fundraising activities (see paragraphs 958-720-45-9 through 45-10), or membership development activities (see paragraphs 958-720-45-11 through 45-14). See paragraphs 958-720-55-171 through 55-176 for examples on which activities would constitute direct conduct or supervision of program or support functions and an example footnote disclosure on the cost allocation method used to allocate costs among functions.

45-8

The costs of oversight and management usually include the salaries and expenses of the governing board, the chief executive officer of the NFP, and the supporting staff. If such staff spend a portion of their time directly conducting or supervising program services or categories of other supporting services, however, their salaries and expenses shall be allocated among those functions (see paragraph 958-720-45-2A). See paragraphs 958-720-55-171 through 55-176 for examples on which activities would constitute direct conduct or supervision of program or support functions and an example note disclosure on the method used to allocate costs among functions.

### **Fundraising Activities**

45-9

Fundraising activities include the following:

- a. Publicizing and conducting fundraising campaigns
- b. Maintaining donor mailing lists
- c. Conducting special fundraising events
- d. Preparing and distributing fundraising manuals, instructions, and other materials
- e. Conducting other activities involved with soliciting contributions from individuals, foundations, government agencies, and others.

45-10

Fundraising activities include soliciting contributions of services from individuals, regardless of whether those services meet the recognition criteria for contributions in the Contributions Received Subsection of Section 958-605-25.

### **Membership Development Activities**

45-11

Membership development activities include the following:

- a. Soliciting for prospective members and membership dues
- b. Membership relations
- c. Similar activities.

45-12

If there are no significant benefits or duties connected with membership, however, the substance of membership development activities may, in fact, be fundraising, and the related costs shall be reported as fundraising costs. (See paragraphs 958-605-55-9 through 55-12 for indicators useful in determining the contribution and exchange portions of membership dues.)

45-13

Membership development activities may be conducted in conjunction with other activities. In circumstances in which membership development is in part soliciting membership dues and in part soliciting contributions, the activity is a joint activity, as discussed in the Accounting for Costs of Activities that Include Fundraising Subsections of this Subtopic beginning with paragraph 958-720-45-28.

45-14

In circumstances in which membership development is conducted in conjunction with other activities but does not include soliciting contributions, the activity is not a joint activity, and the costs shall be allocated to membership development and one or more other functions. For example, if an activity involves costs to solicit new members (membership development) and direct costs of providing goods or services to existing members, in accordance with paragraph 958-720-45-3, an appropriate part of the costs of soliciting members shall be allocated to the membership development function and a part to program services.

## **EXCERPTS FROM ASC 958-720-55 IMPLEMENTATION GUIDANCE AND ILLUSTRATIONS**

### **Accounting for Allocable Costs for Direct Conduct or Direct Supervision**

#### **Example 21: Illustrative Disclosures of Methods Used for the Allocation of Expenses from Management and General**

55-171

The following Cases represent certain activities to illustrate direct conduct and direct supervision of program or support activities and, therefore, should be allocated to the program or support function or functions that receive a benefit in accordance with paragraph 958-720-45-7(k).

#### **Case A: Chief Executive Officer Allocation**

55-172

The broad responsibilities of a chief executive officer generally include administrative and programmatic oversight. At Not-for-Profit Entity A (NFP A), the chief executive officer spends a portion of time directly overseeing the research program. Additionally, a portion of time is spent with current and potential donors on fundraising cultivation activities. A portion of the chief executive officer's compensation and benefits and other expenses would be allocated to the research program and to the fundraising function representing the portion of time spent on those activities because they reflect direct conduct or direct supervision. If the remainder of the chief executive officer's time is spent indirectly supervising the other areas of NFP A, including the administrative areas, those activities would not constitute direct conduct or direct supervision, and the ratable portion of compensation and benefit amounts would remain in management and general activities.

#### **Case B: Chief Financial Officer Allocation**

55-173

The chief financial officer at Not-for-Profit Entity B (NFP B) has primary responsibility for (a) accounting and reporting, (b) short-term budgeting and long-term financial planning, (c) cash management, and (d) direct oversight of NFP B's endowment. A portion of the chief financial officer's compensation and benefits and other expenses would be allocated to management and general activities for the accounting and reporting, the short-term budgeting and long-term financial planning, and cash management functions because they benefit the

overall organization. A portion also would be allocated to investment expenses for management of the investment strategy of the endowment and would be netted against investment return. However, any portion of time spent supervising the accounting for investments or other fiduciary oversight would not be allocated to investment expenses because that time is related to an accounting and general management activity that benefits the overall organization and should be allocated to management and general activities.

#### **Case C: Human Resources Department Allocation**

55-174

The human resources department at Not-for-Profit Entity C (NFP C) generally is involved in the benefits administration for all personnel of NFP C. The human resources department's related costs would not be allocated to any specific program. Rather, those costs would remain a component of management and general activities because benefits administration is a supporting activity for the entire entity.

#### **Case D: Grant Accounting and Reporting Allocation**

55-175

Not-for-Profit Entity D (NFP D) receives federal grants and employs an accountant who is responsible for grant accounting and reporting. In some cases, under the terms of the grant agreement, a fiscal report is required to be filed that details expenses incurred and charged against the grant. The fiscal report is not part of the direct conduct or direct supervision of the grant but rather is an accounting function. Therefore, the grant accountant's compensation and benefits would not be allocated to the programmatic area. However, a scientific report prepared by a principal investigator who is responsible for the research activity would be indicative of direct conduct and/or direct supervision of the grant activity, and the principal investigator's compensation and benefits would be allocated to the grant.

#### **Required Disclosure**

55-176

In accordance with the Cases presented in paragraphs 958-720-55-172 through 55-175, an NFP would be required to assess which activities constitute direct conduct or direct supervision of a program or support function and, therefore, would require allocation of costs. The information required to be disclosed by paragraph 958-720-50-1(d) would be the cost allocation method used to allocate costs of activities identifiable with one or more program, fundraising, or membership-development activities, an example of which is illustrated as follows.

#### **Note X. Methods Used for Allocation of Expenses from Management and General Activities**

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Organization. Those expenses include depreciation and amortization, the president's office, communications department, and information technology department. Depreciation is allocated based on square footage, the president's office is allocated based on estimates of time and effort, certain costs of the communications department are allocated based on estimates of time and effort, and the information technology department is allocated based on estimates of time and costs of specific technology utilized.