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**Accounting for Costs of Activities of Not-for-Profit Organizations
and Local Governmental Entities that Include Fund Raising;
Exposure Draft (American Institute of Certified Public
Accountants), 1996, December 14**

American Institute of Certified Public Accountants. Accounting Standards Executive Committee

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INTERNAL MEMORANDUM

Date: January 22, 1997
To: Karen Neloms
From: Joel Tanenbaum File 3605
Subject: NPO Joint Activities SOP/Public Documents

Attached is a December 14, 1996 letter from Jane Adams to J.T. Ball transmitting a December 14, 1996 draft of a proposed SOP, *Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include Fund Raising*, and related materials (Please note that some of the materials mentioned in the transmittal letter are confidential and are therefore not included in the set I am sending to you.). The draft is being submitted to the FASB for clearance to issue it as a final SOP. The FASB's clearance meeting is tentatively scheduled for February 12, 1997.

If callers inquire about how to obtain these documents, we will tell them to call the library and ask for these materials, which will be kept as "Files related to documents for open meetings."

cc: Jane Adams
Sharon Macey
Andrea Smith

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December 14, 1996

Mr. J. T. Ball, CPA
Assistant Director - Research & Technical Activities
Financial Accounting Standards Board
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Norwalk, CT 06856-5116

Mr. David Bean, CPA
Director of Research
Governmental Accounting Standards Board
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File 3605.ja

Dear J. T. and David:

At its October 22, 1996 meeting, AcSEC voted to issue the proposed Statement of Position, *Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities That Include Fund Raising*, subject to FASB and GASB review. Enclosed for the Boards' consideration is a December 14, 1996 draft of the proposed SOP.

Also enclosed, for your information, are:

- A summary of substantive changes made to the ED. (Because there have been extensive changes made in the format of the document, a marked draft of the ED showing changes made to arrive at the December 14, 1996 draft is not enclosed.)
- Comment letters numbered 1 to 312 received on the ED
- A December 14, 1996 draft of an analysis of comment letters received on the ED and a December 14, 1996 draft *Tabular Staff Summary of Key Issues (on Which a Significant Number of Comments were Received) in the ED*
- A December 4, 1996 draft analysis of comment letters numbered 47 and 114
- Field test and a December 4, 1996 Summary of Field Test Results (Please note that the field test includes and is based on a July 16 draft of the SOP, which has been revised to result in the draft SOP submitted for

clearance. Also, please note that the entity providing the information for case number 2 [telemarketing] has asked that the case not be made public. Accordingly, please do not share the materials for case number 2 with others.)

- Other letters received concerning the project

It is my understanding that draft documents sent to the FASB become part of the public file. For reasons similar to those held by the FASB, we request that the comment letter analysis and summary of field test results be considered confidential and be excluded from the public file. We have marked those items "confidential."

Please address any questions or comments you may have to Joel Tanenbaum, the technical manager assigned to the project (212 596-6164).

Sincerely,



Jane B. Adams
Director
Accounting Standards

JA:jmt

enclosures

cc: AcSEC (without enclosures)
NPO Committee (without comment letters and analysis)
Greg Capin
Mike Crooch
Julie Erhardt
Mary Foelster (without comment letters and analysis)
Ken Schermann
Annette Schumacher
Joel Tanenbaum
Bill Titera (without comment letters and analysis)
Sue Weiss
Ken Williams

STATEMENT OF POSITION 96-XX

**Accounting for Costs of Activities of Not-for-Profit Organizations
and State and Local Governmental Entities That Include Fund Raising**

**Amendment to AICPA Audit and Accounting Guides Health Care
Organizations, Not-for-Profit Organizations, and Audits of State
and Local Governmental Units**

Issued by the Accounting Standards Executive Committee

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Summary

This statement of position (SOP) applies to all not-for-profit organizations (NPOs) and state and local governmental entities required to report fund-raising expenses or expenditures.

This SOP requires--

- If the criteria of purpose, audience, and content as defined in this SOP are met, the costs of joint activities that are identifiable with a particular function should be charged to that function and joint costs should be allocated between fund raising and the appropriate program or management and general function.
- If any of the criteria of purpose, audience, and content are not met, all costs of the activity should be reported as fund-raising costs, including costs that are otherwise identifiable with program or management and general functions.
- Certain financial statement disclosures if joint costs are allocated.

1 Some commonly used and acceptable allocation methods are described
2 and illustrated though no methods are prescribed or prohibited.

3
4 This SOP amends existing guidance in AICPA Audit and Accounting
5 Guides *Health Care Organizations, Not-for-Profit Organizations*
6 (which was issued in August 1996 and supersedes SOP 87-2,
7 *Accounting for Joint Costs of Informational Materials and*
8 *Activities of Not-for-Profit Organizations That Include a Fund-*
9 *Raising Appeal*, because the provisions of SOP 87-2 are incorporated
10 into the Guide), and *Audits of State and Local Governmental Units*.

11
12 This SOP is effective for financial statements for years beginning
13 on or after [its issuance date]. Earlier application is encouraged
14 in fiscal years for which financial statements have not been
15 issued.

1
2 **Foreword**
3

4 The accounting guidance contained in this document has been cleared
5 by the Financial Accounting Standards Board (FASB). The procedure
6 for clearing accounting guidance in documents issued by the
7 Accounting Standards Executive Committee (AcSEC) involves the FASB
8 reviewing and discussing in public board meetings (1) a prospectus
9 for a project to develop a document, (2) a proposed exposure draft
10 that has been approved by at least ten of AcSEC's fifteen members,
11 and (3) a proposed final document that has been approved by at
12 least ten of AcSEC's fifteen members. The document is cleared if
13 at least five of the seven FASB members do not object to AcSEC
14 undertaking the project, issuing the proposed exposure draft or,
15 after considering the input received by AcSEC as a result of the
16 issuance of the exposure draft, issuing the final document.

17
18 The criteria applied by the FASB in their review of proposed
19 projects and proposed documents include the following.

- 20
21 1. The proposal does not conflict with current or proposed
22 accounting requirements, unless it is a limited
23 circumstance, usually in specialized industry accounting,
24 and the proposal adequately justifies the departure.
25
26 2. The proposal will result in an improvement in practice.

1 3. The AICPA demonstrates the need for the proposal.

2

3 4. The benefits of the proposal are expected to exceed the
4 costs of applying it.

5

6 In many situations, prior to clearance, the FASB will propose
7 suggestions, many of which are included in the documents.

8

1 **Accounting for Costs of Activities of Not-for-Profit Organizations**
2 **and State and Local Governmental Entities That Include Fund Raising**

3
4

5 **Introduction**

6

7 1. Some not-for-profit organizations (NPOs) and state and local
8 governmental entities,¹ such as governmental colleges and
9 universities and governmental health care providers, solicit
10 support through a variety of **fund-raising activities**.² These
11 activities include direct mail, telephone solicitation,
12 door-to-door canvassing, telethons, special events, and others.
13 Sometimes fund-raising activities are conducted with activities
14 related to other functions, such as **program activities** and
15 supporting services, such as **management and general activities**.³
16 Sometimes fund-raising activities include components that would
17 otherwise be associated with program or supporting services, but in
18 fact support fund raising.

1 This SOP uses the term *entity* to refer to both NPOs and state and local governments.

2 Terms that appear in the Glossary are set in **boldface type** the first time they appear.

3 The functional classifications of fundraising, program, and management and general are discussed throughout this SOP for purposes of illustrating how the guidance in this SOP would be applied by entities that use those functional classifications. Some entities have a functional structure that does not include fundraising, program, or management and general, or that includes other functional classifications, such as **membership development**.

1 2. External users of financial statements--including contributors,
2 creditors, accreditation agencies, and regulators--want assurance
3 that fund-raising costs, as well as program costs and management
4 and general costs, are stated fairly.

5
6 3. In 1987, the AICPA issued Statement of Position (SOP) 87-2,
7 *Accounting for Joint Costs of Informational Materials and*
8 *Activities of Not-for-Profit Organizations That Include a Fund-*
9 *Raising Appeal.*⁴ SOP 87-2 required that all circumstances
10 concerning informational materials and activities that include a
11 fund-raising appeal be considered in accounting for joint costs of
12 those materials and activities and that certain criteria be applied
13 in determining whether joint costs of those materials and
14 activities should be charged to fund raising or allocated to
15 program or management and general. Those criteria include
16 requiring verifiable indications of the reasons for conducting the
17 activity, such as the content, audience, and action, if any,
18 requested of the participant, as well as other corroborating

⁴ In August 1996, the AICPA issued the Audit and Accounting Guide, *Not-for-Profit Organizations*.

The Guide supersedes SOP 87-2, *Accounting for Joint Costs of Informational Materials and Activities of Not-for-Profit Organizations That Include a Fund-Raising Appeal*, because the provisions of SOP 87-2 are incorporated into paragraphs 13.31 to 13.40 of *Not-for-Profit Organizations*. *Not-for-Profit Organizations* applies to all NPOs other than those required to follow the Audit and Accounting Guide *Health Care Organizations*. The discussion in this SOP of SOP 87-2 refers to both SOP 87-2 and the guidance included in paragraphs 13.31 to 13.40 of *Not-for-Profit Organizations*.

1 evidence. Further, SOP 87-2 required that all joint costs of those
2 materials and activities be charged to fund raising unless the
3 appeal is designed to motivate its audience to action other than
4 providing financial support to the organization.

5
6 4. The provisions of SOP 87-2 have been difficult to implement
7 and have been applied inconsistently in practice. (Appendix A,
8 "Background," discusses this further.)

9
10 5. This SOP establishes financial accounting standards for
11 accounting for costs of joint activities. In addition, this SOP
12 requires financial statement disclosures about the nature of the
13 activities for which joint costs have been allocated and the
14 amounts of joint costs. Appendix F provides explanations and
15 illustrations of some acceptable allocation methods.

16
17
18 **Scope**

19
20 6. This SOP applies to all NPOs and state and local governmental
21 entities required to report fund-raising expenses or expenditures.

22
23
24 **Conclusions**

1 *Accounting for Joint Activities*

2
3 7. If the criteria of purpose, audience, and content are met, the
4 costs of a joint activity that are identifiable with a particular
5 function should be charged to that function and joint costs should
6 be allocated between fund raising and the appropriate program or
7 management and general function. If any of the criteria are not
8 met, all costs of the joint activity should be reported as fund-
9 raising costs, including costs that are otherwise identifiable with
10 program or management and general functions.

11
12
13 *Purpose*

14
15 8. The purpose criterion is met if the purpose of the joint
16 activity includes accomplishing program or management and general
17 functions, other than public education.⁵

18
⁵ For purposes of applying the guidance in this SOP, public education is defined as educational activities that do not motivate the audience to action. In some circumstances, activities that would otherwise be considered educational may implicitly call for specific action by recipients. For example, activities that educate recipients about lifesaving techniques implicitly call for recipients to perform those techniques in applicable circumstances. If the need for and benefits of the action are clearly evident from the educational message, the message is considered to include a call for specific action by the recipient.

1 9. The following factors should be considered, in the order in
2 which they are listed⁶, to determine whether the purpose criterion
3 is met:

4
5 a. *Whether compensation or fees for performing the activity are*
6 *based on contributions raised.* The purpose criterion is not
7 met if a majority of compensation or fees for any party's
8 performance of any component of the discrete joint activity
9 varies based on **contributions** raised for that discrete joint
10 activity.⁷

11
12 b. *Whether a similar program or management and general activity*
13 *is conducted separately and on the same scale.* The purpose
14 criterion is met if either of the following two conditions is
15 met:

⁶ In determining whether the purpose criterion is met, the factor in **paragraph 9a** (the compensation or fees test) is the preeminent guidance. If the factor in **paragraph 9a** is not applicable, the factor in **paragraph 9b** (whether a similar program or management and general activity is conducted separately and on the same scale) should be considered. If the factor in **paragraph 9b** is not applicable, the factor in **paragraph 9c** (other evidence) should be considered.

⁷ The *compensation or fees test* is a negative test in that it either (1) results in failing the purpose criterion or (2) is not determinative of whether the purpose criterion is met. Therefore, if the activity fails the purpose criterion based on this factor (the compensation or fees test), the activity fails the purpose criterion and the **factor in paragraph 9b** should not be considered. If the purpose criterion is not failed based on this factor, this factor is not determinative of whether the purpose criterion is met and the **factor in paragraph 9b** should be considered.

1 (1) Condition 1:

- 2
- 3 - The program component of the joint activity calls for
4 specific action by the recipient that will help
5 accomplish the entity's mission and that is unrelated to
6 making contributions to the entity, and
- 7
- 8 - A similar program component is conducted without the
9 fund-raising component using the same **medium** and on a
10 scale that is similar to or greater than the scale on
11 which it is conducted with the fund raising.⁸
- 12
- 13

14 (2) Condition 2:

15

16 A management and general activity that is similar to the
17 management and general component of the joint activity
18 being accounted for is conducted without the fund-raising
19 component using the same medium and on a scale that is
20 similar to or greater than the scale on which it is
21 conducted with the fund raising.

⁸ Determining the scale on which an activity is conducted may be a subjective determination.

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.

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If the purpose criterion is met based on the factor in paragraph 9b, the factor in paragraph 9c should not be considered.

c. Other evidence. If the factors in paragraph 9a or 9b 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, should be considered to determine whether, based on the weight of that evidence, the purpose criterion is met.

10. The following are examples of indicators that provide evidence for determining whether the purpose criterion is met:

- a. Evidence that the purpose criterion may be met include:
 - Measuring program results and accomplishments of the activity.
The facts may indicate that the purpose criterion is met if the entity measures program results and accomplishments of the activity (other than public education).
 - Medium. The facts may indicate that the purpose criterion is met if the program component of the joint activity calls for specific action by the recipient that will help accomplish the entity's mission and that is unrelated to making contributions

1 to the entity and the entity conducts the program component
2 without a significant fund-raising component in a different
3 medium. Also, the facts may indicate that the purpose
4 criterion is met if the entity conducts the management, and
5 general component of the joint activity without a significant
6 fund-raising component in a different medium.

7
8 b. Evidence that the purpose criterion may not be met include:

- 9
- 10 • Evaluation/compensation. The facts may indicate that the
11 purpose criterion is not met if (a) the evaluation of any
12 party's performance of any component of the discrete joint
13 activity or (b) some, but less than a majority, of
14 compensation or fees for any party's performance of any
15 component of the discrete joint activity varies based on
16 contributions raised for that discrete joint activity.

17
18 c. Evidence that the purpose criterion may be either met or not
19 met include:

- 20
- 21 • Evaluation of measured results of the activity. The entity
22 may have a process to evaluate measured program results and
23 accomplishments of the activity (other than public education).
24 If the entity has such a process, in evaluating the
25 effectiveness of the joint activity, the entity may place
26 significantly greater weight on the activity's effectiveness

1 in accomplishing program goals or may place significantly
2 greater weight on the activity's effectiveness in raising
3 contributions. The former may indicate that the purpose
4 criterion is met. The latter may indicate that the purpose
5 criterion is not met.

6
7 • Qualifications. The qualifications and duties of those
8 performing the joint activity should be considered

9
10 - If a third party, such as a consultant or contractor,
11 performs part or all of the joint activity, such as
12 producing brochures or making telephone calls, the third
13 party's experience and the range of services provided to
14 the entity should be considered in determining whether
15 the third party is performing fund-raising, program
16 (other than public education), or management and general
17 activities on behalf of the entity.

18
19 - If the entity's employees perform part or all of the
20 joint activity, the full range of their job duties should
21 be considered in determining whether those employees are
22 performing fund-raising, program (other than public
23 education), or management and general activities on
24 behalf of the entity. For example, (1) employees who are
25 not members of the fund-raising department and (2)
26 employees who are members of the fund-raising department

1 but who perform non-fund-raising activities are more
2 likely to perform activities that include program or
3 management and general functions than are employees who
4 otherwise devote significant time to fund raising.

- 5
- 6 ● Tangible evidence of intent. Tangible evidence indicating the
7 intended purpose of the joint activity should be considered.
8 Examples of such tangible evidence include

- 9
- 10 - The entity's written mission statement, as stated in its
11 fund-raising activities, bylaws, or annual report.
 - 12
 - 13 - Minutes of board of directors', committees', or other
14 meetings.
 - 15
 - 16 - Restrictions imposed by donors (who are not related
17 parties) on gifts intended to fund the joint activity.
 - 18
 - 19 - Long-range plans or operating policies.
 - 20
 - 21 - Written instructions to other entities, such as script
22 writers, consultants, or list brokers, concerning the
23 purpose of the joint activity, audience to be targeted,
24 or method of conducting the joint activity.
 - 25
 - 26 - Internal management memoranda.

1 Audience

2

3 11. A rebuttable presumption exists that the audience criterion is
4 not met if the audience includes prior donors or is otherwise
5 selected based on its ability or likelihood to contribute to the
6 entity. That presumption can be overcome only if the audience is
7 also selected for one or more of the reasons in paragraph 12. In
8 determining whether that presumption is overcome, entities should
9 consider the extent to which the audience is selected based on its
10 ability or likelihood to contribute to the entity and contrast that
11 with the extent to which it is selected for the reasons that may
12 overcome that presumption. For example, if the audience's ability
13 or likelihood to contribute is a significant factor in its
14 selection and it has a need for the action related to the program
15 component of the joint activity, but having that need is an
16 insignificant factor in its selection, the presumption would not be
17 overcome.

18

19 12. The audience criterion is met if the audience is selected for
20 one or more of the following reasons:

21

22 a. The audience's need to use or reasonable potential for use of
23 the action called for by the program component of the joint
24 activity

1 b. The audience's ability to take action to assist the entity in
2 meeting the goals of the program component of the joint activity
3 other than by making contributions to the entity

4
5 c. The entity is required to direct the management and general
6 component of the joint activity to the particular audience or the
7 audience has reasonable potential for use of the management and
8 general component

9
10
11 *Content*

12
13 13. The content criterion is met if the joint activity supports
14 program or management and general functions, as follows:

15
16 a. *Program.* The joint activity calls for specific action by the
17 recipient that will help accomplish the entity's mission and that
18 is unrelated to making contributions to the entity. If the need
19 for and benefits of the action are not clearly evident, information
20 describing the action and explaining the need for and benefits of
21 the action is provided.

1 *b. Management and general.* The joint activity fulfills one or
2 more of the entity's management and general responsibilities
3 through a component of the joint activity.⁹

4
5 14. Information identifying and describing the entity, the needs
6 or concerns to be met, or how the contributions provided will be
7 used is considered in support of fund raising. Educational
8 activities are considered in support of fund raising unless they
9 motivate the audience to action other than making contributions to
10 the entity.

11
12 *Allocation Methods*

13
14 15. The cost allocation methodology used should be rational and
15 systematic, it should result in an allocation of joint costs that
16 is reasonable, and it should be applied consistently given similar
17 facts and circumstances.

18
19 *Incidental Activities*

20
21 16. Some fund-raising activities conducted in conjunction with
22 program or management and general activities are incidental to such

⁹ Some states or other governing bodies require that certain disclosures be included in conjunction with all charitable solicitations. For purposes of applying the guidance in this SOP, such disclosures are considered fund-raising activities, and are not considered management and general activities.

1 program or management and general activities. For example, an
2 entity may conduct a fund-raising activity by including a generic
3 message, "Contributions to Organization X may be sent to [address]"
4 on a small area of a message that would otherwise be considered a
5 program or management and general activity based on its purpose,
6 audience, and content. That fund-raising activity likely would be
7 considered incidental to the program or management and general
8 activity being conducted. Similarly, entities may conduct program
9 or management and general activities in conjunction with fund-
10 raising activities that are incidental to such fund-raising
11 activities. For example, an entity may conduct a program activity
12 by including a generic program message, such as "Continue to pray
13 for [a particular cause]," on a small area of a message that would
14 otherwise be considered fund raising based on its purpose,
15 audience, and content. That program activity would likely be
16 considered incidental to the fund-raising activity being conducted.
17 Similarly, an entity may conduct a management and general activity
18 by including a generic management and general message, "The
19 organization's latest annual report can be obtained by calling 123-
20 4567" on a small area of a message that would otherwise be
21 considered a program or fund-raising activity based on its purpose,
22 audience, and content. That management and general activity would
23 likely be considered incidental to the program or fund-raising
24 activity being conducted. In circumstances in which a fund-
25 raising, program, or management and general activity is conducted
26 in conjunction with another activity and is incidental to that

1 other activity, and the conditions in this SOP for allocation are
2 met, joint costs are permitted but not required to be allocated and
3 may therefore be charged to the functional classification related
4 to the primary activity. However, in circumstances in which the
5 program or management and general activities are incidental to the
6 fund-raising activities, it is unlikely that the conditions
7 required by this SOP to permit allocation of joint costs would be
8 met.

9
10
11 *Disclosures*

12
13 17. Entities that allocate joint costs should disclose the
14 following in the notes to their financial statements:

- 15
16 a. The types of activities for which joint costs have been
17 incurred
18
19 b. A statement that such costs have been allocated
20
21 c. The total amount allocated during the period and the portion
22 allocated to each functional expense category
23

24 18. This SOP encourages, but does not require, that the amount of
25 joint costs for each kind of joint activity be disclosed, if
26 practical.

1 **Effects on Other Guidance**

2
3 19. For nongovernmental organizations, this SOP amends the AICPA
4 Audit and Accounting Guide *Health Care Organizations* and paragraphs
5 13.31 to 13.40 of the AICPA Audit and Accounting Guide *Not-for-*
6 *Profit Organizations*.

7
8 20. For governmental entities that have applied the accounting and
9 financial reporting principles in SOP 78-10, *Accounting Principles*
10 *and Reporting Practices for Certain Nonprofit Organizations*, or the
11 Industry Audit Guide *Audits of Voluntary Health and Welfare*
12 *Organizations* (modified by all applicable FASB pronouncements
13 issued through November 30, 1989, and by most applicable GASB
14 pronouncements) in conformity with Governmental Accounting
15 Standards Board (GASB) Statement No. 29, *The Use of Not-for-Profit*
16 *Accounting and Financial Reporting Principles by Governmental*
17 *Entities*, this SOP amends the principles--based on SOP 78-10 and
18 *Audits of Voluntary Health and Welfare Organizations*, as modified--
19 that those entities apply. For governmental entities that have
20 applied the accounting and financial reporting principles in the
21 1973 AICPA Industry Audit Guide *Audits of Colleges and*
22 *Universities*, as amended by SOP 74-8 and as modified by applicable
23 FASB pronouncements issued through November 30, 1989, and all
24 applicable GASB pronouncements in conformity with GASB Statement
25 No. 15, *Governmental College and University Accounting and*
26 *Financial Reporting Models*, this SOP amends the principles--based

1 on *Audits of Colleges and Universities*, as amended and modified--
2 that those entities apply. For other governmental organizations,
3 this SOP amends the Audit and Accounting Guide *Audits of State and*
4 *Local Governmental Units*.

5
6

7 **Effective Date**

8

9 21. This SOP is effective for financial statements for years
10 beginning on or after its **issuance date**. Earlier application is
11 encouraged in fiscal years for which financial statements have not
12 been issued. If comparative financial statements are presented,
13 retroactive application is permitted but not required.

14

15

**The provisions of this Statement of
Position need not
be applied to immaterial items.**

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Appendix A - Background

A-1. As stated in paragraph 4, the provisions of Statement of Position (SOP) 87-2, *Accounting for Joint Costs of Informational Materials and Activities of Not-for-Profit Organizations That Include a Fund-Raising Appeal*, have been difficult to implement and applied inconsistently in practice. That difficulty has been due in part to the following:

- The second sentence of paragraph 1 of SOP 87-2 stated that "some of the costs incurred by such organizations are clearly identifiable with fundraising, such as the cost of fund-raising consulting services." It is unclear whether activities that would otherwise be considered program activities should be characterized as program activities if they are performed or overseen by professional fund raisers. Also, it is unclear whether activities would be reported differently (for example, as program rather than fund raising) depending on whether the fund-raising consultant is compensated by a predetermined fee or by some other method, such as a percentage of contributions raised.
- SOP 87-2 was unclear about whether allocation of costs to program expense is required if the activity for which the

1 costs were incurred would not have been undertaken without the
2 fund-raising component.

- 3
- 4 • SOP 87-2 defined joint costs through examples, and it is
5 therefore unclear what kinds of costs were covered by SOP 87-
6 2. For example, it is unclear whether salaries and indirect
7 costs can be joint costs.

- 8
- 9 • Some believe the guidance in SOP 87-2 was inadequate to
10 determine whether joint activities, such as those that request
11 contributions and also list the warning signs of a disease,
12 are designed to motivate their audiences to action other than
13 to provide contributions to the entity. It is unclear what
14 attributes the targeted audience should possess in order to
15 conclude that a program function is being conducted.

16

17 A-2. In 1992, the Accounting Standards Executive Committee (AcSEC)
18 undertook a project to supersede SOP 87-2, to provide clearer
19 guidance than that provided by SOP 87-2, as well as provide
20 guidance that would improve on the guidance in SOP 87-2. In
21 September 1993, AcSEC released an exposure draft of a proposed SOP,
22 *Accounting for Costs of Materials and Activities of Not-for-Profit*
23 *Organizations and State and Local Governmental Entities That*
24 *Include a Fund-Raising Appeal*, for public comment. AcSEC received
25 more than 300 comment letters on the exposure draft. AcSEC
26 redeliberated the issues based on the comments received.

1 A-3. In 1996, after redeliberating the issues based on the
2 comments received and making certain revisions to the draft SOP,
3 AcSEC conducted a field test of the draft SOP. The objectives of
4 the field test were to determine whether the provisions of the
5 draft SOP were sufficiently clear and definitive to generate
6 consistent and comparable application of the SOP. Based on the
7 field test results, AcSEC concluded that the provisions of the
8 draft SOP, with certain revisions, were sufficiently clear and
9 definitive to generate consistent and comparable application of the
10 SOP.

11

12 A-4. **Appendix B** discusses the key issues in the exposure draft and
13 comments received on those issues, as well as the basis for AcSEC's
14 conclusions on those and certain other issues.

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Appendix B - Basis for Conclusions

B-1. This section discusses considerations that were deemed significant by members of AcSEC in reaching the conclusions in this SOP. It includes reasons for accepting certain views and rejecting others. Individual AcSEC members gave greater weight to some factors than to others.

Overall Framework

B-2. This SOP uses the model in Statement of Position (SOP) 87-2, *Accounting for Joint Costs of Informational Materials and Activities of Not-for-Profit Organizations That Include a Fund-Raising Appeal*, as a starting point and clarifies guidance that was unclear, provides more detailed guidance, revises some guidance, and expands the scope of costs covered to include all costs of joint activities. The model established by SOP 87-2 was to account for joint costs as fund raising unless an entity could demonstrate that a program or management and general function had been conducted. SOP 87-2 used verifiable indications of the reasons for conducting the activity, such as content, audience, the action requested, if any, and other corroborating evidence as a basis for

1 determining whether a program or management and general function
2 had been conducted.

3

4 B-3. On an overall basis, the majority of respondents, who
5 commented on the September 1993 exposure draft of a proposed SOP,
6 *Accounting for Costs of Materials and Activities of Not-for-Profit*
7 *Organizations and State and Local Governmental Entities That*
8 *Include a Fund-Raising Appeal (ED)*, opposed it, for various
9 reasons, including the following:

10

11 ● The guidance in SOP 87-2 is operational, results in sound
12 financial reporting, and should be retained.

13

14 ● The guidance in SOP 87-2 should be retained but clarified.

15

16 ● The guidance proposed in the exposure draft should be revised.
17 (Some commented that it overstates fund raising; others
18 commented that it understates fund raising.)

19

20 B-4. AcSEC concluded that it supports the model in the exposure
21 draft, subject to certain revisions. AcSEC believes that this SOP
22 provides clear, detailed accounting guidance that, when applied,
23 will increase comparability of financial statements. Those
24 statements will also include more meaningful disclosures without
25 incurring increased costs.

26

1 B-5. Some respondents commented that the model in the exposure
2 draft would adversely affect entities both financially and
3 operationally. Various reasons were given, including the
4 following:

5

6 ● It would inhibit the ability of entities, particularly small
7 entities and entities that raise contributions through direct
8 solicitations, to generate the necessary revenue to perform
9 their program services.

10

11 ● Most entities would not meet the criteria in this SOP for
12 reporting costs of joint activities as program or management
13 and general, because they must combine their mission
14 statements, public information and education, and fund-raising
15 appeals due to a lack of resources. Some noted that this may
16 result in unsatisfactory ratings from public watchdog groups.

17

18

19 AcSEC did not find these arguments compelling. This SOP provides
20 accounting guidance; it provides no guidance concerning how
21 entities should undertake their activities. Also, this SOP does
22 not prohibit allocation merely because activities carrying out
23 different functions are combined. In fact, this SOP provides
24 guidance for reporting costs as program or management and general
25 in circumstances in which those activities are combined. Moreover,
26 actions taken by financial statement users are not the direct

1 result of the requirements of this SOP. Rather, those actions may
2 result from more relevant and useful information on which to base
3 decisions.

4
5 B-6. Some respondents commented that the exposure draft is biased
6 toward reporting expenses as fund raising. AcSEC believes that
7 determining whether the costs of joint activities should be
8 classified as program, management and general, or fund raising
9 sometimes is difficult, and such distinctions sometimes are subject
10 to a high degree of judgment. AcSEC believes that external
11 financial statement users focus on and have perceptions about
12 amounts reported as program, management and general, and fund-
13 raising. That focus and those perceptions provide incentive for
14 entities to report expenses as program or management and general
15 rather than fundraising. Therefore, in circumstances in which
16 joint activities are conducted, a presumption exists that expenses
17 should be reported as fundraising rather than as program or
18 management and general. The criteria in this SOP provide guidance
19 for entities to overcome that presumption.

20
21
22 **Accounting for Joint Activities**

23
24 B-7. This SOP requires that if any of the criteria of purpose,
25 audience, and content are not met, all costs of the activity should
26 be reported as fund-raising, including costs that are otherwise

1 identifiable with program or management and general functions.
2 (This SOP expands on the model established by SOP 87-2 by including
3 all costs of joint activities, rather than merely joint costs.)
4

5 B-8. AcSEC concluded that unless the criteria of purpose,
6 audience, and content are met, costs of joint activities should be
7 presumed to be fund-raising costs. AcSEC believes that those three
8 criteria are each relevant in determining whether a joint activity
9 should be reported as fundraising, program, or management and
10 general because each provides significant evidence about the
11 benefits expected to be obtained by undertaking the activity.
12

13 B-9. Some respondents commented that reporting costs that are
14 otherwise identifiable with program or management as fund raising
15 is misleading and that the scope of the SOP should include only
16 joint costs of joint activities. Some commented that reporting
17 costs that are otherwise identifiable with program or management as
18 fundraising conflicts with Financial Accounting Standards Board
19 (FASB) Statement of Financial Accounting Standards No. 117,
20 *Financial Statements of Not-for-Profit Organizations*, which defines
21 fund raising, program, and management and general and requires NPOs
22 to report information about expenses using those functional
23 classifications. AcSEC believes that the purpose for which costs
24 other than joint costs are incurred may be fund raising, program,
25 or management and general, depending on the context in which they
26 are used in the activity undertaken. For example, a program-

1 related pamphlet may be sent to an audience in need of the program.
2 In that context, the pamphlet is used for program purposes.
3 However, in order to demonstrate to potential donors that the
4 entity's programs are worthwhile, that same pamphlet may be sent to
5 an audience who is likely to contribute, but who has no need or
6 reasonable potential for use of the program. In that context, the
7 pamphlet is used for fund raising. AcSEC believes this broader
8 scope will result in more comparability and more meaningful
9 financial reporting by covering all costs of activities that
10 include fund raising. AcSEC concluded that, although costs may
11 otherwise be identifiable with program or management and general
12 functions, those costs are in support of fund raising if the
13 criteria in this SOP are not met. AcSEC believes the guidance does
14 not conflict with FASB Statement No. 117, because such costs are
15 not incurred to support program or management and general functions
16 in circumstances in which the criteria in this SOP are not met.

17
18
19 **Criterion of Purpose, Audience, and Content**

20
21 ***Call to Action***

22
23 B-10. The definition of *program* in FASB Statement No. 117 includes
24 public education. As noted in **paragraph B-6**, AcSEC believes that
25 in circumstances in which joint activities are conducted, a
26 presumption exists that expenses should be reported as fund raising

1 rather than as program or management and general. AcSEC believes
2 that in order to overcome that presumption, it is not enough that
3 the purpose of the activity include public education, that the
4 audience have a need or reasonable potential use for any
5 educational component of the activity, or that the audience have
6 the ability to assist the entity in meeting the goals of the
7 program component of the activity by becoming educated. Therefore,
8 AcSEC concluded that for purposes of this SOP, program activities
9 are required to call for specific action by the recipient, other
10 than becoming educated, that will help accomplish the entity's
11 mission and that is unrelated to making contributions to the entity
12 in order to conclude that the criteria of purpose, audience, and
13 content are met.

14

15

16 *Purpose*

17

18 B-11. AcSEC believes meeting the purpose criterion demonstrates
19 that the activity includes accomplishing program or management and
20 general functions. Inherent in the notion of a joint activity is
21 that the activity accomplishes more than one function.
22 Accordingly, the purpose criterion provides guidance for
23 determining whether the purpose of the activity includes
24 accomplishing program or management and general functions in
25 addition to fund raising.

26

1 *Compensation and Evaluation Tests*

2

3 B-12. The exposure draft proposed that all costs of the joint
4 activity should be charged to fund raising if (a) substantially all
5 compensation or fees for performing the activity or (b) the
6 evaluation of the party performing the activity is based on amounts
7 raised. Some respondents commented that basing the method of
8 compensation or evaluating the performance of the party performing
9 the activity based on contributions raised should not lead to the
10 conclusion that all costs of the activity should be charged to fund
11 raising. Others commented that the method of compensation is
12 unrelated to whether the purpose criterion is met. The reasons
13 given included the following:

- 14
- 15 • It is counterintuitive to imply that those performing
16 multipurpose activities that include fund raising would not be
17 compensated or evaluated based on amounts raised.

 - 18
 - 19 • Such guidance would create a bias toward entities that use
20 employees to raise contributions and against entities that
21 hire professional fund raisers and public relations firms and
22 is therefore not neutral.

23

24 Some respondents gave examples of circumstances in which
25 substantially all compensation is based on contributions raised and
26 asserted that the activity was nevertheless a program activity. In

1 each of those examples, AcSEC considered all the facts presented
2 and concluded that the activity was fund raising.

3
4 B-12A. AcSEC continues to support the spirit of the proposed
5 guidance, because AcSEC believes that basing a majority of
6 compensation on funds raised is persuasive evidence that the
7 activity is a fund-raising activity. Nevertheless, AcSEC believes
8 that the proposed guidance was unclear and would be difficult to
9 implement, primarily because of the broad definition of "based on
10 contributions raised" included in the glossary of the exposure
11 draft. In connection with that issue, AcSEC was concerned that any
12 joint activities performed by a fund-raising department or by
13 individuals whose duties include fund-raising, such as executive
14 officers of small NPOs who are employed based on their ability to
15 raise contributions, would be required to be reported as fund
16 raising because the compensation of the parties performing those
17 activities is based on amounts raised. Also, AcSEC had concerns
18 that it would be difficult to determine whether fixed contract
19 amounts were negotiated based on expected contributions.
20 Therefore, AcSEC concluded that the compensation test should be
21 revised to provide that the purpose criterion is not met if a
22 majority of compensation or fees for any party's performance of any
23 component of the discrete joint activity varies based on
24 contributions raised for that discrete joint activity. AcSEC
25 believes that guidance is sound and is operational.

1 B-13. AcSEC believes that the guidance in **paragraph 9a** is not
2 biased against entities that hire professional fund raisers,
3 because it applies to the entity's employees as well as
4 professional fund raisers. For example, if a majority of an
5 employee's compensation or fees for performing a component of a
6 discrete joint activity varies based on contributions raised for
7 that discrete joint activity, the purpose criterion is not met.

8
9
10 ***Similar Function-Similar Medium Test***

11
12 B-14. Some respondents misinterpreted the exposure draft as
13 providing that, in order to meet the purpose criterion, the program
14 or management and general activity must be conducted without the
15 fund-raising component, using the same medium and on a scale that
16 is similar to or greater than the program or management and general
17 component of the activity being accounted for. That was not a
18 requirement proposed by the exposure draft. The exposure draft
19 proposed that meeting that condition would result in meeting the
20 purpose criterion. Failing the criterion merely leads to
21 consideration of other evidence, such as the indicators in
22 **paragraph 10**. AcSEC has revised the SOP to state this more
23 clearly.

24
25 ***Other Evidence***

1 B-15. The compensation test and the similar function-similar
2 medium test may not always be applicable because the attributes
3 that they consider may not be present. Therefore, this SOP
4 includes indicators that should be considered in circumstances in
5 which the compensation test and the similar function-similar medium
6 test are not applicable. The nature of those indicators is such
7 that they may be present in varying degrees. Therefore, all
8 available evidence, both positive and negative, should be
9 considered to determine whether, based on the weight of that
10 evidence, the purpose criterion is met.

11
12
13 ***Audience***

14
15 B-16. The exposure draft proposed that if the audience for the
16 materials or activities is selected principally on its ability or
17 likelihood to contribute, the audience criterion is not met and all
18 the costs of the activity should be charged to fund-raising.
19 Further, the exposure draft proposed that if the audience is
20 selected principally based on its need for the program or because
21 it can assist the entity in meeting its program goals other than by
22 financial support provided to the entity, the audience criterion is
23 met. Some respondents commented that the audience criterion is too
24 narrow, because it is based on the principal reason for selecting
25 the audience. They asserted that for some activities no principal
26 reason exists for selecting an audience; entities select the

1 audience for those activities for multiple reasons, such as both
2 the audience's ability to contribute and its ability to help meet
3 program goals. Some commented that for some activities, entities
4 select audiences that have provided past financial support because,
5 by providing financial support, those audiences have expressed an
6 interest in the program.

7
8 B-16A. AcSEC believes that meeting the audience criterion should
9 demonstrate that the audience is selected because it is a suitable
10 audience for accomplishing the activity's program or management and
11 general functions. Therefore, the reasons for selecting the
12 audience should be consistent with the program or management and
13 general content of the activity. However, AcSEC believes it is
14 inherent in the notion of joint activities that the activity
15 accomplishes more than one function, including fundraising, and
16 acknowledges that it may be difficult to determine the principal
17 reason for selecting the audience. Accordingly, AcSEC concluded
18 that if the audience includes prior donors or is otherwise selected
19 based on its ability or likelihood to contribute, a rebuttable
20 presumption should exist that the audience was selected to raise
21 funds. AcSEC believes that the reasons for selecting the audience
22 that can overcome that presumption, which are included in paragraph
23 12 of this SOP, demonstrate that the audience is selected because
24 it is a suitable audience for accomplishing the activity's program
25 or management and general functions based on the program or
26 management and general content of the activity.

1

2 **Content**

3

4 B-17. AcSEC believes that meeting the content criterion
5 demonstrates that the content of the activity supports the
6 activity's program or management and general functions. Those
7 functions are based on the entity's mission, programs, and
8 management and general responsibilities. AcSEC believes that
9 accounting guidance should not impose value judgments about whether
10 the entity's mission, programs, and responsibilities are
11 worthwhile.

12

13 B-18. As part of the content criterion, this SOP requires that the
14 activity should call for specific action by the recipient that will
15 help accomplish the entity's mission. The exposure draft proposed
16 that slogans, general calls to prayer, and general calls to protest
17 do not meet the content criterion; some respondents disagreed.
18 AcSEC concluded that this SOP should be silent concerning whether
19 slogans, general calls to prayer, and general calls to protest are
20 calls to action that meet the content criterion. AcSEC believes
21 that determining whether those items are calls to action that meet
22 the content criterion requires judgements based on the particular
23 facts and circumstances.

24

25 B-19. Some respondents commented that public education should
26 satisfy the content criterion. They noted that this is

1 particularly relevant for NPOs subject to Internal Revenue Code
2 (IRC) Section 501(c)4, because those NPOs are involved in
3 legislative reform. Also, some noted that it may be the entity's
4 mission or goal to educate the public about conditions that its
5 programs are designed to address or about a particular cause. They
6 believe that, in those cases, the NPO's program is public
7 education. As discussed in paragraph B-10, AcSEC concluded that
8 education that does not motivate the audience to action other than
9 to make contributions to the entity is in fact done in support of
10 fund raising. However, this SOP acknowledges that some educational
11 messages implicitly motivate the audience to action other than to
12 make contributions to the entity, and those messages meet the
13 content criterion. AcSEC believes that that provision will result
14 in the activities of some NPOs subject to IRC Section 501(c)4 (and
15 some other entities, whose mission or goal is to educate the public
16 about conditions that its programs are designed to address or about
17 a particular cause) meeting the content criterion without
18 explicitly calling for specific action.

19
20
21 **INCIDENTAL ACTIVITIES**

22
23 B-20. Many entities conduct fund-raising activities in conjunction
24 with program or management and general activities that are
25 incidental to such program or management and general activities.
26 Similarly, entities may conduct program or management and general

1 activities in conjunction with fund-raising activities that are
2 incidental to such fund-raising activities. Such efforts may be a
3 practical and efficient means for entities to conduct activities,
4 though the principal purpose of the activity may be to fulfill
5 either fund-raising, program, or management and general functions.
6 The exposure draft proposed that incidental activities need not be
7 considered in applying this SOP. Some respondents disagreed with
8 that guidance, while others commented that it was confusing. AcSEC
9 continues to support that guidance. AcSEC believes that guidance
10 is necessary to avoid requiring complex allocations in
11 circumstances in which the activity is conceptually a joint
12 activity but in fact is primarily either fund-raising, program, or
13 management and general.

14
15 **ALLOCATION METHODS**

16
17 B-21. Respondents had various comments concerning allocation
18 methods, including the following:

- 19
- 20 ● The SOP should focus on allocation methods rather than on
21 circumstances in which entities should allocate.
 - 22
 - 23 ● The SOP should prescribe allocation methods.
 - 24
 - 25 ● The approach taken in the SOP--discussing, rather than
26 requiring or prohibiting allocation methods--is sound.

- 1 • Certain allocation methods should be prohibited.
- 2
- 3 • The SOP should set maximum allocation percentages.
- 4

5 AcSEC believes that no particular allocation method or methods are
6 necessarily more desirable than other methods in all circumstances.
7 Therefore, this SOP neither prescribes nor prohibits any particular
8 allocation methods. AcSEC believes entities should apply the
9 allocation methods that result in the most reasonable cost
10 allocations for the activities of those entities. **Appendix F** of
11 this SOP illustrates several cost allocation methods, any one of
12 which may result in a reasonable or unreasonable allocation of
13 costs in particular circumstances. The methods illustrated are not
14 the only acceptable methods. However, AcSEC believes that the
15 methods illustrated in this SOP are among those most likely to
16 result in meaningful cost allocations.

17

18

19 **DISCLOSURES**

20

21 B-22. Respondents made various comments concerning the required
22 and encouraged disclosures, including recommendations for
23 additional disclosures and recommendations that certain disclosures
24 be deleted. AcSEC was not persuaded that the costs of the other
25 disclosures recommended by respondents are justified by their
26 benefits. AcSEC believes that, with the exception of one

1 disclosure, the disclosures prescribed by the exposure draft
2 provide relevant information about the kinds of activities for
3 which joint costs have been incurred and the manner in which those
4 costs are reported in the financial statements. In considering
5 disclosures proposed by the exposure draft about the allocation
6 method, AcSEC observed that there are no requirements to disclose
7 methods of allocating other expenses and questioned the utility of
8 disclosing the allocation method in this circumstance. AcSEC
9 concluded that the requirement to disclose the allocation method
10 should be deleted.

11
12 B-23. **Paragraph 18** encourages, but does not require, certain
13 disclosures. AcSEC believes those disclosures provide useful
14 information but that they should be encouraged rather than required
15 because the costs of making them may not be justified by the
16 benefits in all cases.

17
18 B-24. Accounting Principles Board (APB) Opinion No. 20 states in
19 paragraph 7 that "the term *accounting principle* includes 'not only
20 accounting principles and practices but also the methods of
21 applying them.'" APB Opinion No. 20 also states in paragraphs 15
22 and 16 that

23
24 ...In the preparation of financial statements there is a
25 presumption that an accounting principle once adopted
26 should not be changed in accounting for events and

1 transactions of a similar type....The presumption that an
2 entity should not change an accounting principle may be
3 overcome only if the enterprise justifies the use of an
4 alternative acceptable accounting principle [allocation
5 method] on the basis that it is preferable.
6
7

8 A change in cost allocation methodology may be a change in
9 accounting principle for entities covered by this SOP.
10 Accordingly, **paragraph** 15 of this SOP provides that the cost
11 allocation methodology used should be applied consistently, given
12 similar facts and circumstances.
13
14

15 **Effective Date**
16

17 B-25. Some respondents commented that the effective date should be
18 deferred. AcSEC believes that the accounting systems required to
19 implement this SOP are already in place and knows of no reason to
20 delay implementation of this SOP. Though some entities may change
21 their operations based on the reporting that would result from this
22 SOP, implementation should be relatively straightforward.
23 Therefore, AcSEC concluded that this SOP should be effective for
24 financial statements for years beginning on or after [its issuance
25 date].
26

1 **Cost-Benefit**

2

3 B-26. Some respondents commented that the guidance would increase
4 record-keeping costs. AcSEC believes that implementing this SOP
5 will not significantly increase record-keeping costs, which are
6 primarily the costs of documenting reasons for undertaking joint
7 activities. Further, AcSEC believes that the costs of making the
8 disclosures required by this SOP should be minimal, because
9 entities should already have the information that is required to be
10 disclosed. AcSEC believes that implementing this SOP will result
11 in more relevant, meaningful, and comparable financial reporting
12 and that the cost of implementing this SOP will be justified by its
13 benefits.

14

15

16 **Appendix C - Discussion of Conclusions**

17

18 **SCOPE**

19

20 C-1. This SOP applies only to costs of joint activities. It does
21 not address allocations of costs in other circumstances.

22

23 C-2. Paragraph 26 of Financial Accounting Standards Board (FASB)
24 Statement of Financial Accounting Standards No. 117 *Financial*
25 *Statements of Not-for-Profit Organizations* requires NPOs to report
26 expenses by function.

1 C-3. Paragraph 26 of FASB Statement No. 117 specifies that a
2 statement of activities or notes to the financial statements should
3 provide information about expenses reported by their functional
4 classification, such as major classes of program services and
5 supporting activities. Paragraph 13.30 of the AICPA Audit and
6 Accounting Guide, *Not-for-Profit Organizations*, provides that the
7 financial statements of not-for-profit organizations' should
8 disclose the total fund-raising expenses.

9

1 C-4. For entities that have not adopted FASB Statement No. 117,¹
2 some are required to report expenses by function using the
3 functional classifications of program, management and general, and
4 fund raising. Other entities that report expenses or expenditures
5 by function have a functional structure that does not include fund
6 raising, program, or management and general. Still other entities

¹ Governmental Accounting Standards Board (GASB) Statement No. 29, *The Use of Not-for-Profit Accounting and Financial Reporting Principles by Governmental Entities*, provides that governmental entities should not change their accounting and financial reporting to apply the provisions of FASB Statements No. 116, *Accounting for Contributions Received and Contributions Made*, and No. 117. GASB Statement No. 29 permits governmental entities that have applied the accounting and financial reporting principles in SOP 78-10, *Accounting Principles and Reporting Practices for Certain Nonprofit Organizations*, or the Industry Audit Guide *Audits of Voluntary Health and Welfare Organizations* (modified by all applicable FASB pronouncements issued through November 30, 1989, and by most applicable GASB pronouncements) to continue to do so, pending GASB pronouncements on the accounting and financial reporting model for governmental entities. Alternatively, those governmental entities are permitted to change to the current governmental financial reporting model.

GASB Statement No. 15, *Governmental College and University Accounting and Financial Reporting Models*, requires governmental colleges and universities to use one of two accounting and financial reporting models. One model, referred to as the "AICPA College Guide Model," encompasses the accounting and financial reporting guidance in the 1973 AICPA Industry Audit Guide *Audits of Colleges and Universities*, as amended by SOP 74-8 and as modified by applicable FASB pronouncements issued through November 30, 1989, and all applicable GASB pronouncements. (The other model, referred to as the "Governmental Model," is based on the pronouncements of the National Council on Governmental Accounting [NCGA] and the GASB.)

1 do not report expenses or expenditures by function. Examples of
2 those various reporting requirements are as follows:

3
4 ● Entities subject to the AICPA Industry Audit Guide *Audits of*
5 *Voluntary Health and Welfare Organizations*, as well as those
6 that follow SOP 78-10, *Accounting Principles and Reporting*
7 *Practices for Certain Nonprofit Organizations*, and that
8 receive significant amounts of contributions from the public,
9 are required to report separately the costs of the
10 fundraising, program, and management and general functions.

11
12 ● Entities subject to the AICPA Industry Audit Guide *Audits of*
13 *Colleges and Universities*, as amended by SOP 74-8, *Financial*
14 *Accounting and Reporting by Colleges and Universities*, are
15 required to report fund raising as part of the "institutional
16 support" function.

17
18 C-5. This SOP applies to all entities that are required to report
19 fund-raising expenses or expenditures. It is not intended to
20 require reporting the functional classifications of fund raising,
21 program, and management and general. Rather, those functional
22 classifications are discussed throughout this SOP for purposes of
23 illustrating how the guidance in this SOP would be applied by
24 entities that use those functional classifications. Some entities
25 may use other functional classifications, such as membership
26 development. Entities that do not use the functional

1 classifications of fund raising, program, and management and
2 general should apply the guidance in this SOP for purposes of
3 accounting for joint activities, using their reporting model.

4

5 C-6. **Paragraph 7** provides: "If the criteria of purpose, audience,
6 and content are met, the costs of a joint activity that are
7 identifiable with a particular function should be charged to that
8 function and joint costs should be allocated between fund raising
9 and the appropriate program or management and general function. If
10 any of the criteria are not met, all costs of the joint activity
11 should be reported as fund-raising costs, including costs that are
12 otherwise identifiable with program or management and general
13 functions." For example, if the criteria are met, the costs of
14 materials that accomplish program goals and that are unrelated to
15 fund raising, such as the costs of a program-related pamphlet
16 included in a joint activity, should be charged to program, while
17 joint costs, such as postage, should be allocated between
18 fundraising and program. However, if the pamphlet is used in fund-
19 raising packets and the criteria are not met, the costs of the
20 pamphlets used in the fund-raising packets, as well as the joint
21 costs, should be charged to fund raising. (If some pamphlets are
22 used in activities other than activities that include fund raising,
23 such as separate program activities that include no fund-raising
24 activities, the cost of those pamphlets should be charged to
25 program.)

26

1 **Contributed Services or Time**

2

3 C-7. As discussed in the Glossary of this SOP, fund raising
4 includes activities undertaken to solicit contributions. Because
5 contributed services or time are contributions, soliciting
6 contributed services or time is a fund-raising activity, regardless
7 of whether the services or time are recognized as contributions in
8 conformity with paragraph 9 of FASB Statement No. 116.

9

10

11 **Compensation Test**

12

13 C-8. Paragraph 9a provides: "The purpose criterion is not met if
14 a majority of compensation or fees for any party's performance of
15 any component of the discrete joint activity varies based on
16 contributions raised for that discrete joint activity." Some
17 compensation contracts provide that compensation for performing the
18 activity is based on a factor other than contributions raised, but
19 not to exceed a specified portion of contributions raised. For
20 example, a contract may provide that compensation for performing
21 the activity is \$10 per contact hour, but not to exceed 60 percent
22 of contributions raised. In such circumstances, compensation is
23 not considered based on amounts raised, unless it is probable that
24 the stated maximum percentage will be met.

25

26 **Audience**

1 C-9. The source of the names and the characteristics of the
2 audience should be considered in determining the reason for
3 selecting the audience. Some entities use lists compiled by others
4 to reach new audiences. The source of such lists may indicate the
5 purpose or purposes for which they were selected. For example,
6 lists acquired from entities with similar or related programs are
7 more likely to meet the audience criterion than are lists acquired
8 from entities with dissimilar or unrelated programs. Also, the
9 characteristics of those on the lists may indicate the purpose or
10 purposes for which they were selected. For example, a list based
11 on a consumer profile of those who buy environmentally friendly
12 products may be useful to an entity whose mission addresses
13 environmental concerns and could therefore indicate that the
14 audience was selected for its ability to take action to assist the
15 entity in meeting program goals. However, a list based on net
16 worth would indicate that the audience was selected based on its
17 ability or likelihood to contribute, unless there was a correlation
18 between net worth and the program or management and general
19 components of the activity.

20
21 C-10. Some audiences may be selected because they have an interest
22 in or affinity to the program. For example, homeowners may have an
23 interest in the homeless because they are sympathetic to the plight
24 of the homeless. Nevertheless, including homeowners in the
25 audience of a program activity to provide services to the homeless

1 would not meet the audience criterion, because they do not have a
2 need or reasonable potential for use of services to the homeless.

3
4 C-11. **Paragraph 12c** provides that the audience criterion is met if
5 the entity is required to direct the management and general
6 component of the joint activity to the particular audience or the
7 audience has reasonable potential for use of the management and
8 general component. Examples of circumstances in which the audience
9 is selected because the entity is required to direct the management
10 and general component of the joint activity to the particular
11 audience or the audience has reasonable potential for use of the
12 management and general component include the following:

- 13
- 14 • The entity sends prior donors a written acknowledgement or
15 other information to comply with requirements of the Internal
16 Revenue Service and includes a request for contributions.
 - 17
 - 18 • The entity sends its annual report to donors and includes a
19 request for contributions.
- 20
21

22 **Content**

23
24 C-12. **Paragraph 13** provides that, to meet the content criterion,
25 program activities should call for specific action "by the
26 recipient that will help accomplish the entity's mission and that

1 is unrelated to making contributions to the entity." As discussed
2 in the **Glossary**, the action should benefit the recipient or
3 society. Examples of actions that benefit the recipient (such as
4 by improving the recipient's physical, mental, emotional, or
5 spiritual health and well-being) or society (such as by addressing
6 societal problems) include the following:

7
8 a. Actions that benefit the recipient--

9
10 ● *Stop smoking.* Specific methods, instructions, references, and
11 resources should be suggested.

12
13 ● *Do not use alcohol or drugs.* Specific methods, instructions,
14 references, and resources should be suggested.

15
16 b. Actions that benefit society:

17
18 ● *Write or call.* The party to communicate with and the subject
19 matter to be communicated should be specified.

20
21 ● *Complete and return the enclosed questionnaire.* The results
22 of the questionnaire should help the entity achieve its
23 mission. For example, if the entity discards the
24 questionnaire, it does not help the entity achieve its
25 mission.

26

- 1 • Boycott. The particular product or company to be boycotted
2 should be specified.

3
4 C-13. Paragraph 13 provides that to meet the content criterion,
5 management and general functions are required to fulfill one or
6 more of the entity's management and general responsibilities
7 through a component of the joint activity. Some states or other
8 governing bodies require that certain disclosures be included in
9 conjunction with all charitable solicitations. Paragraph 13,
10 footnote 9, of this SOP provides that for purposes of applying the
11 guidance in this SOP, such required disclosures are considered
12 fund-raising activities and are not considered management and
13 general activities. Some examples of such disclosures include the
14 following:

- 15
16 • Information filed with the Attorney General concerning this
17 charitable solicitation may be obtained from the attorney
18 general of [the state] by calling 123-4567. Registration with
19 the attorney general does not imply endorsement.
20
21 • A copy of the registration and financial information may be
22 obtained from the division of consumer services by calling
23 toll-free, within [the state], 1-800-123-4567. Registration
24 does not imply endorsement, approval, or recommendation by
25 [the state].
26

- 1 • Information about the cost of postage and copying, and other
2 information required to be filed under [the state] law, can be
3 obtained by calling 123-4567.

- 4
- 5 • The organization's latest annual report can be obtained by
6 calling 123-4567.

7
8

9 **Allocation Methods**

10

11 C-14. **Paragraph** 15 of this SOP states, "The cost allocation
12 methodology used should be rational and systematic, it should
13 result in an allocation of joint costs that is reasonable, and it
14 should be applied consistently given similar facts and
15 circumstances." The allocation of joint costs should be based on
16 the degree to which costs were incurred for the functions to which
17 the costs are allocated (that is, program, management and general,
18 or fund raising). For purposes of determining whether the
19 allocation methodology for a particular joint activity should be
20 consistent with methodologies used for other particular joint
21 activities, facts and circumstances that may be considered include
22 factors related to the content and relative costs of the components
23 of the activity. The audience should not be considered in
24 determining whether the facts and circumstances are similar for
25 purposes of determining whether the allocation methodology for a

1 particular joint activity should be consistent with methodologies
2 used for other particular joint activities.

3
4
5 **Practicability of Measuring Joint Costs**

6
7 C-15. The **Glossary** of this SOP includes a definition of *joint*
8 *costs*. Some costs, such as utilities, rent, and insurance,
9 commonly referred to as indirect costs, may be joint costs. For
10 example, the telephone bill for a department that, among other
11 things, prepares materials that include both fund-raising and
12 program components may commonly be referred to as an indirect cost.
13 Such telephone bills may also be joint costs. However, for some
14 entities, it is impracticable to measure and allocate the portion
15 of the costs that are joint costs! Considerations about which
16 joint costs should be measured and allocated, such as
17 considerations about materiality and the costs and benefits of
18 developing and providing the information, are the same as
19 considerations about cost allocations in other circumstances.

20
21
22 L:\USERS\TANENJO\DOCS\NJA\NJA.19

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APPENDIX D - Flowchart

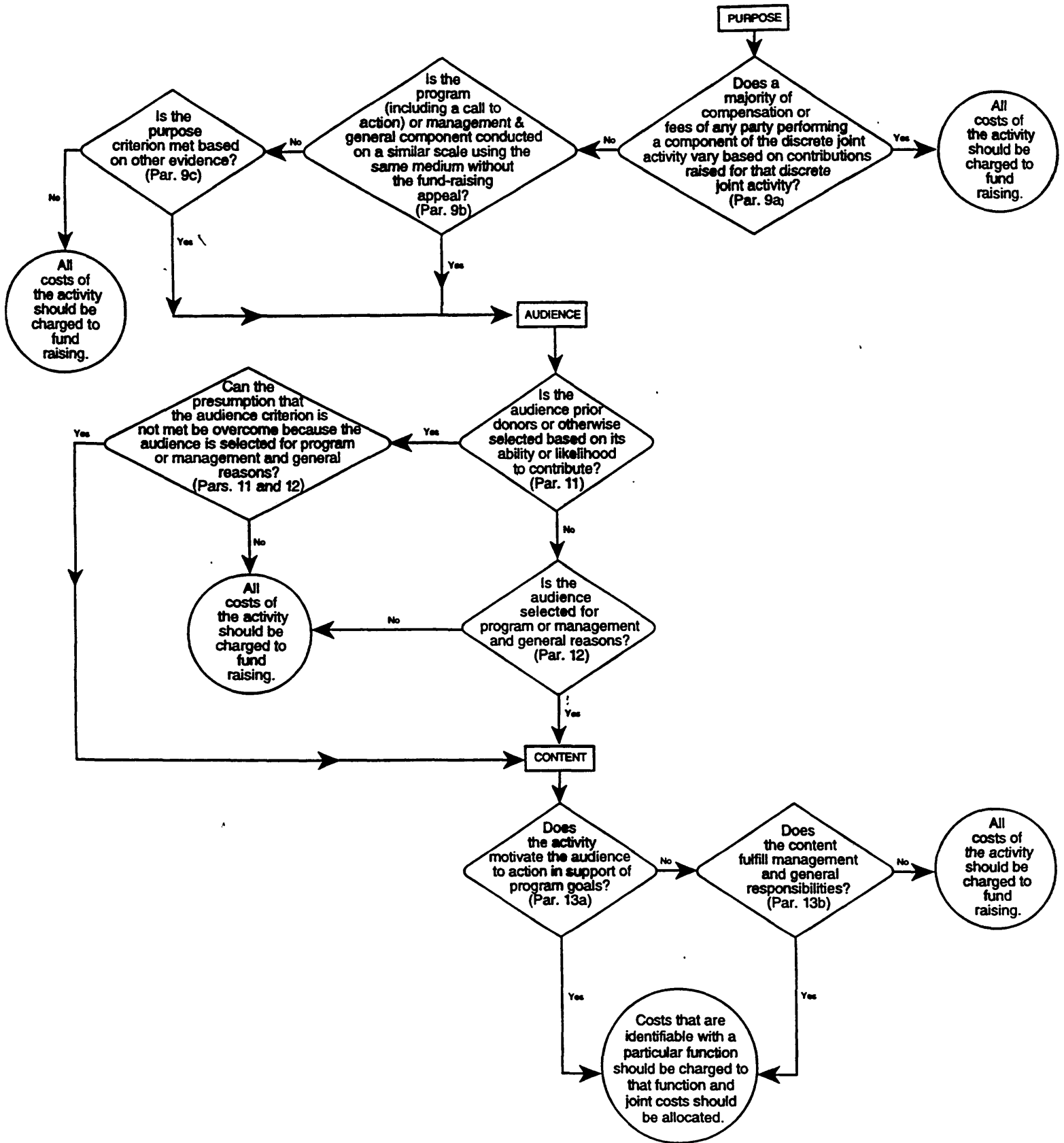
8
9

ACCOUNTING FOR JOINT ACTIVITIES¹

10 **[See separate page for the Flowchart.]**

¹ Note: This flow chart summarizes certain guidance in this SOP and is not intended as a substitute for the SOP.

ACCOUNTING FOR JOINT ACTIVITIES*



* Note—This flowchart summarizes certain guidance in this SOP and is not intended as a substitute for the SOP

1 APPENDIX E - Illustrations of Applying the Criteria of Purpose,
2 Audience, and Content to Determine Whether a Program or Management
3 and General Activity Has Been Conducted

4
5 Illustration 1

6
7 *Facts*

8
9 E-1. Entity A's mission is to prevent drug abuse. Entity A's
10 annual report states that one of its objectives in fulfilling that
11 mission is to assist parents in preventing their children from
12 abusing drugs.

13
14 E-2. Entity A mails informational materials to the parents of all
15 junior high school students explaining the prevalence and dangers
16 of drug abuse. The materials encourage parents to counsel children
17 about the dangers of drug abuse and inform them about how to detect
18 drug abuse. The mailing includes a request for contributions.
19 Entity A conducts other activities informing the public about the
20 dangers of drug abuse and encouraging parents to counsel their
21 children about drug abuse that do not include requests for
22 contributions and that are conducted in different media. Entity
23 A's executive director is involved in the development of the
24 informational materials as well as the request for contributions.

1 The executive director's annual compensation includes a significant
2 bonus if total annual contributions exceed a predetermined amount.

3

4 *Conclusion*

5

6 E-3. The purpose, audience, and content criteria are met, and the
7 joint costs should be allocated.

8

9 E-4. Neither of the factors in paragraphs 9a or 9b is
10 determinative of whether the purpose criterion is met. (Though
11 entity A's executive director's annual compensation varies based on
12 annual contributions, the executive director's compensation does
13 not vary based on contributions raised for this discrete joint
14 activity.) Therefore, other evidence, such as the indicators in
15 paragraph 10, should be considered. The purpose criterion is met
16 based on the other evidence, because (a) the program component of
17 this activity calls for specific action by the recipient that will
18 help accomplish the entity's mission and that is unrelated to
19 making contributions to the entity (encouraging parents to counsel
20 children about the dangers of drug abuse) and it otherwise conducts
21 the program activity in this illustration without a request for
22 contributions and (b) performing such programs helps accomplish
23 Entity A's mission (Note that had Entity A conducted the activity
24 using the same medium on a scale that is similar to or greater than

1 the scale on which it is conducted with the request for
2 contributions, the purpose criterion would have been met under
3 **paragraph 9b.)**

4
5 E-5. The audience criterion is met because the audience (parents
6 of junior high school students) is selected based on its need to
7 use or reasonable potential for use of the action called for by the
8 program component.

9
10 E-6. The content criterion is met because the activity calls for
11 specific action that is unrelated to providing contributions to
12 Entity A (encouraging parents to counsel children about the dangers
13 of drug abuse and inform them about how to detect drug abuse) and
14 that will help accomplish the entity's mission (assisting parents
15 in preventing their children from abusing drugs), and it explains
16 the need for and benefits of the action (the prevalence and dangers
17 of drug abuse).

18
19
20 **Illustration 2**

21
22 *Facts*

1 E-7. Entity B's mission is to reduce the incidence of illness from
2 ABC disease, which afflicts a broad segment of the population. One
3 of Entity B's objectives in fulfilling that mission is to inform
4 the public about the effects and early warning signs of the disease
5 and specific action that should be taken to prevent the disease.
6

7 E-8. Entity B maintains a list of its prior donors and sends them
8 donor renewal mailings. The mailings include messages about the
9 effects and early warning signs of the disease and specific action
10 that should be taken to prevent it. That information is also sent
11 to a similar-sized audience but without the request for
12 contributions. Also, Entity B believes that recent donors are more
13 likely to contribute than nondonors or donors who have not
14 contributed recently. Prior donors are deleted from the mailing
15 list if they have not contributed to Entity B recently, and new
16 donors are added to the list. There is no evidence of a
17 correlation between recent contributions and participation in the
18 program component of the activity. Also, the prior donor's need to
19 use or reasonable potential for use of the messages about the
20 effects and early warning signs of the disease and specific action
21 that should be taken to prevent it are an insignificant factor in
22 their selection.

23
24 *Conclusion*

1 E-9. The purpose and content criteria are met. The audience
2 criterion is not met.¹ All costs, including those that would
3 otherwise be identifiable as program, should be charged to
4 fundraising.

5
6 E-10. The purpose criterion is met because the program component
7 of the activity calls for specific action by the recipient that
8 will help accomplish the entity's mission and that is unrelated to
9 making contributions to the entity (informing the public about the
10 effects and early warning signs of ABC disease and specific action
11 that should be taken to prevent it), and the program is also
12 conducted using the same medium on a scale that is similar to or
13 greater than the scale on which it is conducted with the request
14 for contributions (a similar mailing is done without the request
15 for contributions, to a similar-sized audience).

16
17 E-11. The audience criterion is not met. A rebuttable presumption
18 exists that the audience criterion is not met because the audience
19 is prior donors. That presumption cannot be overcome. Though the

¹ Paragraph 7 of this SOP provides that all costs of joint activities should be charged to fund raising if any of the criteria of purpose, audience, or content are not met. Accordingly, if one or more criteria are not met, the other criteria need not be considered. However, the illustrations in this Appendix provide conclusions about whether each of the criteria would be met in circumstances in which one or more criteria are not met in order to provide further guidance.

1 audience has a need to use or reasonable potential for use of the
2 program component, that was an insignificant factor in their
3 selection.

4

5 E-12. The content criterion is met because the activity calls for
6 specific action that is unrelated to providing contributions to
7 Entity B (actions to prevent ABC disease) an that will help
8 accomplish the entity's mission (to reduce the incidence of ABC
9 disease), and it explains the need for and benefits of the action
10 (to prevent ABC disease).

11

12

13 **Illustration 3**

14

15 *Facts*

16

17 E-13. Entity C's mission is to reduce the incidence of illness
18 from ABC disease, which afflicts a broad segment of the population.
19 One of Entity C's objectives in fulfilling that mission is to
20 increase governmental funding for research about ABC disease.

21

22 E-14. Entity C maintains a list of its prior donors and its
23 employees call them on the telephone reminding them of the effects
24 of ABC disease, asking for donations, and encouraging them to

1 contact their elected officials to urge increased governmental
2 funding for research about ABC disease. The callers are educated
3 about ABC, do not otherwise perform fund-raising functions, and are
4 not compensated or evaluated based on donations raised. Entity C's
5 research indicates that recent donors are likely to contact their
6 elected officials about such funding while nonrecent donors are
7 not. Prior donors are deleted from the calling list if they have
8 not contributed to Entity C recently, and new donors are added to
9 the list.

10
11 *Conclusion*

12
13 E-15. The purpose, audience, and content criteria are met, and the
14 joint costs should be allocated.

15
16 E-16. Neither of the factors in **paragraph 9a** or **9b** is
17 determinative of whether the purpose criterion is met. Therefore,
18 other evidence, such as the indicators in **paragraph 10**, should be
19 considered. The purpose criterion is met based on the other
20 evidence, because (a) the qualifications and duties of the
21 personnel performing the activity indicate that it is a program
22 activity (the callers are educated about ABC and do not otherwise
23 perform fund-raising functions), (b) the method of compensation for
24 performing the activity does not indicate that it is a fund-raising

1 activity (the employees are not compensated or evaluated based on
2 donations raised), and (c) performing such programs helps
3 accomplish Entity C's mission.

4

5 E-17. The audience criterion is met because the audience (recent
6 donors) is selected based on its ability to assist Entity C in
7 meeting the goals of the program component of the activity other
8 than by making contributions to Entity C. (recent donors are likely
9 to contact their elected officials about such funding while
10 nonrecent donors are not).

11

12 E-18. The content criterion is met because the activity calls for
13 specific action that is unrelated to providing contributions to
14 Entity C (contacting elected officials concerning funding for
15 research concerning ABC disease) and that will help accomplish the
16 entity's mission (to reduce the incidence of ABC disease), and it
17 explains the need for and benefits of the action (to prevent ABC
18 disease).

19

20

21 **Illustration 4**

22

23 **Facts**

24

1 E-19. Entity D is an organization whose mission is to improve the
2 quality of life for senior citizens. One of Entity D's objectives
3 included in that mission is to increase the physical activity of
4 senior citizens. One of Entity D's programs to attain that
5 objective is to send representatives to speak to groups about the
6 importance of exercise and to conduct exercise classes.

7
8 E-20. Entity D mails a brochure on the importance of exercise that
9 encourages exercise in later years to residents over the age of 58
10 in three zip code areas. The last two pages of the four-page
11 brochure include a perforated contribution remittance form on which
12 Entity D explains its program and makes an appeal for
13 contributions. The content of the first two pages of the brochure
14 is primarily educational; it explains how seniors can undertake a
15 self-supervised exercise program and encourages them to undertake
16 such a program.

17
18 E-21. The brochure is distributed to educate people in this age
19 group about the importance of exercising and to raise contributions
20 for Entity D. These objectives are documented in a letter to the
21 public relations firm that developed the brochure. The audience is
22 selected based on age, without regard to ability to contribute.
23 Entity D believes that most of the recipients would benefit from
24 the information about exercise.

1 *Conclusion*

2

3 E-22. The purpose, audience, and content criteria are met, and the
4 joint costs should be allocated.

5

6 E-23. Neither of the factors in **paragraphs** 9a or 9b is
7 determinative of whether the purpose criterion is met. Therefore,
8 other evidence, such as the indicators in **paragraph** 10, should be
9 considered. The purpose criterion is met based on the other
10 evidence, because (a) performing such programs helps accomplish
11 Entity D's mission and (b) the objectives of the program are
12 documented in a letter to the public relations firm that developed
13 the brochure.

14

15 E-24. The audience criterion is met because the audience (senior
16 citizens in certain zip codes) is selected based on its need to use
17 or reasonable potential for use of the action called for by the
18 program component.

19

20 E-25. The content criterion is met because the activity calls for
21 specific action that is unrelated to providing contributions to
22 Entity D (exercising) and that will help accomplish the entity's
23 mission (increasing the physical activity of senior citizens), and

1 the need for and benefits of the action are clearly evident
2 (explains the importance of exercising).

3

4 **Illustration 5**

5

6 *Facts*

7

8 E-26. The facts are the same as those in **Illustration 4**, except
9 that Entity E employs a fund-raising consultant to develop the
10 brochure and pays that consultant 30 percent of contributions
11 raised.

12

13 *Conclusion*

14

15 E-27. The content and audience criteria are met. The purpose
16 criterion is not met, however, because a majority of compensation
17 or fees for the fund-raising consultant varies based on
18 contributions raised for this discrete joint activity (the fund-
19 raising consultant is paid 30 percent of contributions raised).
20 All costs, including those that would otherwise be identifiable as
21 program, should be charged to fund raising.

22

23 **Illustration 6**

24

1 *Facts*

2

3 E-28. Entity F's mission is to protect the environment. One of
4 Entity F's objectives included in that mission is to take action
5 that will increase the portion of waste recycled by the public.

6

7 E-29. Entity F conducts a door-to-door canvass of a community that
8 recycles a low portion of its waste. The purpose of the activity
9 is to help increase recycling by educating the community about
10 environmental problems created by not recycling, and to raise
11 contributions. Based on the information communicated by the
12 canvassers, the need for and benefits of the action are clearly
13 evident. The ability or likelihood of the residents to contribute
14 is not a basis for communities selected, and all neighborhoods in
15 the geographic area are covered if their recycling falls below a
16 predetermined rate. The canvassers are selected from individuals
17 who are well-informed about the organization's environmental
18 concerns and programs and who previously participated as volunteers
19 in program activities such as answering environmental questions
20 directed to the organization and developing program activities
21 designed to influence legislators to take actions addressing those
22 concerns. The canvassers have not previously participated in fund-
23 raising activities.

24

1 *Conclusion*

2

3 E-30. The purpose, audience, and content criteria are met, and the
4 joint costs should be allocated.

5

6 E-31. Neither of the factors in **paragraph 9a** or **9b** is
7 determinative of whether the purpose criterion is met. Therefore,
8 other evidence, such as the indicators in **paragraph 10**, should be
9 considered. The purpose criterion is met based on the other
10 evidence, because (a) the qualifications and duties of the
11 personnel performing the activity indicate that it is a program
12 activity (the canvassers are selected from individuals who are
13 well-informed about the organization's environmental concerns and
14 programs and who previously participated as volunteers in program
15 activities such as answering environmental questions directed to
16 the organization and developing program activities designed to
17 influence legislators to take actions addressing those concerns)
18 and (b) performing such programs helps accomplish Entity F's
19 mission (to protect the environment).

20

21 E-32. The audience criterion is met because the audience
22 (neighborhoods whose recycling falls below a predetermined rate) is
23 selected based on its need to use or reasonable potential for use
24 of the action called for by the program component.

1 E-33. The content criterion is met because the activity calls for
2 specific action that is unrelated to providing contributions to
3 Entity F (help increase recycling) and that will help accomplish
4 the entity's mission (to protect the environment), and the need for
5 and benefits of the action are clearly evident (increased recycling
6 will help alleviate environmental problems).

7
8
9 **Illustration 7**

10
11 ***Facts***

12
13 E-34. Entity G's mission is to provide summer camps for
14 economically disadvantaged youths. Educating the families of
15 ineligible youths about the camps' is not one of the program
16 objectives included in that mission.

17
18 E-35. Entity G conducts a door-to-door solicitation campaign for
19 its camp programs. In the campaign, volunteers with canisters
20 visit homes in middle-class neighborhoods to collect contributions.
21 Entity G believes that people in those neighborhoods would not need
22 the camp's programs but may contribute. The volunteers explain the
23 camp's programs, including why the disadvantaged children benefit
24 from the program, and distribute leaflets to the residents

1 regardless of whether they contribute to the camp. The leaflets
2 describe the camp, its activities, who can attend, and the benefits
3 to attendees. Requests for contributions are not included in the
4 leaflets.

5

6 **Conclusion**

7

8 E-36. The audience and content criteria are not met. The purpose
9 would likely not be met based on an evaluation of other evidence,
10 such as the indicators in **paragraph 10**. All costs should be
11 charged to fund raising.

12

13 E-37. Neither of the factors in **paragraph 9a** or **9b** is
14 determinative of whether the purpose criterion is met. Therefore,
15 other evidence, such as the indicators in **paragraph 10** should be
16 considered. It is likely that the purpose criterion would not be
17 met based on the other evidence, because Entity G believes that
18 people in those neighborhoods would not need the camp's programs
19 but may contribute.

20

21 E-38. The audience criterion is not met, because the audience is
22 selected based on its ability or likelihood to contribute, rather
23 than based on its (a) need to use or reasonable potential for use
24 of the action called for by the program component or (b) ability to

1 take action to assist the entity in meeting the goals of the
2 program component of the activity other than by making
3 contributions to Entity G. (Entity G believes that people in those
4 neighborhoods would not need the camp's programs but may
5 contribute.)

6

7 E-39. The content criterion is not met because the activity does
8 not call for specific action by the recipient that is unrelated to
9 providing contributions to Entity G.

10

11

12 **Illustration 8**

13

14 ***Facts***

15

16 E-40. Entity H's mission is to educate the public about life
17 saving techniques in order to increase the number of lives saved.
18 One of Entity H's objectives in fulfilling that mission, as stated
19 in the minutes of the board's meetings, is to produce and show
20 television broadcasts including information about lifesaving
21 techniques.

22

23 E-41. Entity H conducts an annual national telethon to raise
24 contributions and to reach the American public with lifesaving

1 educational messages, such as summary instructions concerning
2 dealing with certain life-threatening situations. Based on the
3 information communicated by the messages, the need for and benefits
4 of the action are clearly evident. The broadcast includes segments
5 describing Entity H's services. Entity H broadcasts the telethon
6 to the entire country, not merely to areas selected on the basis of
7 giving potential or prior fundraising results. Also, Entity H uses
8 national television broadcasts devoted entirely to lifesaving
9 educational messages to conduct program activities without fund
10 raising.

11
12 ***Conclusion***

13
14 E-42. The purpose, audience, and content criteria are met, and the
15 joint costs should be allocated.

16
17 E-43. The purpose criterion is met because the program component
18 of the activity calls for specific action by the recipient that
19 will help accomplish the entity's mission and that is unrelated to
20 making contributions to the entity and a similar program activity
21 is conducted without the fund raising using the same medium and on
22 a scale that is similar to or greater than the scale on which it is
23 conducted with the appeal (Entity H uses national television

1 broadcasts devoted entirely to lifesaving educational messages to
2 conduct program activities without fund raising).

3
4 E-44. The audience criterion is met because the audience (a broad
5 segment of the population) is selected based on its need to use or
6 reasonable potential for use of the action called for by the
7 program activity.

8
9 E-45. The content criterion is met because the activity calls for
10 specific action that is unrelated to providing contributions to
11 Entity H (saving lives) and that will help accomplish the entity's
12 mission (to save lives by educating the public), and the need for
13 and benefits of the action are clearly evident (saving lives is
14 desirable).

15
16
17 **Illustration 9**

18
19 ***Facts***

20
21 E-46. Entity I's mission is to provide food, clothing, and medical
22 care to children in developing countries.

1 E-47. Entity I conducts television broadcasts in the United States
2 that describe Entity I's programs, show the needy children, and end
3 with appeals for contributions. Entity I's operating policies and
4 internal management memoranda state that these programs are
5 designed to educate the public about the needs of children in
6 developing countries and to raise contributions. The employees
7 producing the programs are trained in audio-visual production and
8 are familiar with Entity I's programs. Also, the executive
9 producer is paid \$25,000 for this activity, with a \$5,000 bonus if
10 the activity raises over \$1,000,000.

11
12
13 *Conclusion*

14
15 E-48. The purpose, audience, and content criteria are not met.
16 All costs should be charged to fund raising.

17
18 E-49. Neither of the factors in **paragraph 9a** or **9b** is
19 determinative of whether the purpose criterion is met. (Though the
20 executive producer will be paid \$5,000 if the activity raises over
21 \$1,000,000, that amount would not be a majority of the executive
22 producer's total compensation for this activity, because \$5,000
23 would not be a majority of the executive producer's total
24 compensation of \$30,000 for this activity.) Therefore, other

1 evidence, such as the indicators in paragraph 10, should be
2 considered. The purpose criterion is not met based on the other
3 evidence. Though the qualifications and duties of the personnel
4 performing the activity indicate that the employees producing the
5 program are familiar with Entity I's programs, the fact that some,
6 but less than a majority, of the executive producer's compensation
7 varies based on contributions raised, and that the operating
8 policies and internal management memoranda state that these
9 programs are designed to educate the public about the needs of
10 children in developing countries (with no call for specific action
11 by recipients) and to raise contributions indicate that the purpose
12 is fund raising.

13

14 E-50. The audience criterion is not met because the audience is
15 selected based on its ability or likelihood to contribute, rather
16 than based on its (a) need to use or reasonable potential for use
17 of the action called for by the program component or (b) ability to
18 take action to assist the entity in meeting the goals of the
19 program component of the activity other than by making
20 contributions to Entity I. (The audience is a broad segment of the
21 population of a country that is not in need of or has no reasonable
22 potential for use of the program activity.)

23

1 E-51. The content criterion is not met because the activity does
2 not call for specific action by the recipient that is unrelated to
3 providing contributions to Entity I and that will help accomplish
4 Entity I's mission.

5
6
7 **Illustration 10**

8
9 ***Facts***

10
11 E-52. Entity J is a university that distributes its annual report,
12 which includes reports on mission accomplishments, to those who
13 have made contributions over the previous year, its board of
14 trustees, and its employees. The annual report is primarily
15 prepared by management and general personnel, such as the
16 accounting department and executive staff. The activity is
17 coordinated by the public relations department. Internal
18 management memoranda indicate that the purpose of the annual report
19 is to report on how management discharged its stewardship
20 responsibilities, including the university's overall performance,
21 goals, financial position, cash flows, and results of operations.
22 Included in the package containing the annual report are requests
23 for contributions and donor reply cards.

1 **Conclusion**

2
3 E-53. The purpose, audience, and content criteria are met, and the
4 joint costs should be allocated.

5
6 E-54. Neither of the factors in paragraph 9a or 9b is
7 determinative of whether the purpose criterion is met. Therefore,
8 other evidence, such as the indicators in paragraph 10, should be
9 considered. The purpose criterion is met based on the other
10 evidence, because (a) the employees performing the activity are not
11 members of the fund-raising department and perform other non-fund-
12 raising activities and (b) internal management memoranda indicate
13 that the purpose of the annual report is to fulfill one of the
14 university's management and general responsibilities.

15
16 E-55. The audience criterion is met because the audience is
17 selected based on its reasonable potential for use of the
18 management and general component. Though the activity is directed
19 primarily at those who have previously made significant
20 contributions, the audience was selected based on its presumed
21 interest in Entity J's annual report (prior donors who have made
22 significant contributions are likely to have an interest in matters
23 discussed in the annual report).

1 E-56. The content criterion is met because the activity
2 (distributing annual reports) fulfills one of the entity's
3 management and general responsibilities (reporting concerning
4 management's fulfillment of its stewardship function).

5
6
7 **Illustration 11**

8
9 ***Facts***

10
11 E-57. Entity K is an NPO. In accordance with internal management
12 memoranda documenting its policies requiring it to comply with
13 Internal Revenue Service (IRS) regulations, it mails prior donors
14 who have made quid pro quo payments in excess of \$75 documentation
15 required by the IRS. Included in the mailing of the documentation
16 are requests for contributions and donor reply cards.

17
18 **Conclusion**

19
20 E-58. The purpose, audience, and content criteria are met, and the
21 joint costs should be allocated.

22
23 E-59. Neither of the factors in **paragraph 9a** or **9b** is
24 determinative of whether the purpose criterion is met. Therefore,

1 other evidence, such as the indicators in **paragraph** 10, should be
2 considered. The purpose criterion is met based on the other
3 evidence, because internal management memoranda indicate that the
4 purpose of the activity is to fulfill one of Entity K's management
5 and general responsibilities.

E-60. The audience criterion is met because the entity is required
8 to direct the management and general component of the activity to
9 the particular audience. Though the activity is directed at those
10 who have previously contributed, the audience was selected based on
11 its need for the documentation.

12
13 E-61. The content criterion is met because the activity (sending
14 documentation required by the IRS) fulfills one of the entity's
15 management and general responsibilities (complying with IRS
16 regulations).

17
18 **Illustration 12**

19
20 ***Facts***

21
22 E-62. Entity L is an animal rights organization. It mails a
23 package of material to individuals included in lists rented from
24 various environmental and other organizations that support causes

1 that Entity L believes are congruent with its own. In addition to
2 donor response cards and return envelopes, the package includes (a)
3 materials urging recipients to contact their legislators and urge
4 the legislators to support legislation to protect those rights and
5 (b) postcards addressed to legislators urging support for
6 legislation restricting the use of animal testing for cosmetic
7 products. The mail campaign is part of an overall strategy that
8 includes magazine advertisements and the distribution of similar
9 materials at various community events, some of which are undertaken
10 without fund-raising appeals. The advertising and community events
11 reach audiences similar in size and demographics to the audience
12 reached by the mailing.

13
14 ***Conclusion***

15
16 E-63. The purpose, audience, and content criteria are met, and the
17 joint costs should be allocated.

18
19 E-64. The purpose criterion is met because the activity calls for
20 specific action by the recipient that will help accomplish the
21 entity's mission and that is unrelated to making contributions to
22 the entity and a similar program component is conducted using the
23 same medium on a scale that is similar to or greater than the scale
24 on which it is conducted with the request for contributions

1 (magazine advertisements and the distribution of similar materials
2 at various community events).

3
4 E-65. The audience criterion is met because the audience
5 (individuals included in lists rented from various environmental
6 and other organizations that support causes that Entity L believes
7 are congruent with its own) is selected based on its ability to
8 take action to assist the entity in meeting the goals of the
9 program component of the activity other than by making
10 contributions to the entity.

11
12 E-66. The content criterion is met because the activity calls for
13 specific action that is unrelated to providing contributions to
14 Entity L (mailing postcards to legislators urging support for
15 legislation restricting the use of animal testing for cosmetic
16 products) and that will help accomplish the entity's mission (to
17 protect animal rights) and the need for and benefits of the action
18 are clearly evident (to protect animal rights).

1 **Illustration 13**

2

3 ***Facts***

4

5 E-67. Entity M is a performing arts organization. Entity M's
6 mission is to make the arts available to residents in its area.
7 Entity M charges a fee for attending performances and sends
8 advertisements, including subscription forms, for the performances
9 to residents in its area. These advertisements include a return
10 envelope with a request for contributions. Entity M evaluates the
11 effectiveness of the advertising based on the number of
12 subscriptions sold as well as donations received. In performing
13 that evaluation, entity M places more weight on the number of
14 subscriptions sold than on the donations received. Also, Entity M
15 advertises the performances on local television and radio but on a
16 smaller scale than the mail advertising.

17

18 ***Conclusion***

19

20 E-68. The purpose, audience, and content criteria are met, and the
21 joint costs should be allocated.

22

23 E-69. Neither of the factors in **paragraph 9a** or **9b** is
24 determinative of whether the purpose criterion is met. Therefore,

1 other evidence, such as the indicators in paragraph 10, should be
2 considered. The purpose criterion is met based on the other
3 evidence, because (a) the entity measures program results and
4 accomplishments of the activity, and evaluation of the
5 effectiveness of the activity is skewed principally to the
6 activity's effectiveness in the accomplishment of program goals
7 (Entity M evaluates the effectiveness of the advertising based on
8 the number of subscriptions sold as well as donations received and
9 places more weight on the number of subscriptions sold than on the
10 donations received), (b) it otherwise conducts the program activity
11 in this illustration without a request for contributions, and (c)
12 performing such programs helps accomplish Entity M's mission (to
13 make the arts available to residents in its area).

14

15 E-70. The audience criterion is met because the audience (a broad
16 segment of the population in Entity M's area) is selected based on
17 its need to use or reasonable potential for use of the action
18 called for by the program component.

19

20 E-71. The content criterion is met because the activity calls for
21 specific action that is unrelated to providing contributions to
22 Entity M (attending the performances) and that will help accomplish
23 Entity's M's mission (making the arts available to area residents),
24 and the need for and benefits of the action are clearly evident

1 (attending the performance would be a positive cultural
2 experience). (Note that the purchase of subscription forms is a
3 reciprocal transaction and, therefore, is not a contribution.)
4
5

6 **Illustration 14**

7
8 *Facts*
9

10 E-72. Entity N's mission is to reduce the incidence of illness
11 from ABC disease, which primarily afflicts people over 65 years of
12 age. One of Entity N's objectives in fulfilling that mission is to
13 have all persons over 65 screened for ABC disease.
14

15 E-73. Entity N rents space at events attended primarily by people
16 over 65 years of age and conducts free screening for ABC disease.
17 Entity N's employees, who are educated about ABC disease and
18 screening procedures and do not otherwise perform fund-raising
19 functions, educate interested parties about the effects of ABC
20 disease and the ease and benefits of screening for it. Entity N
21 also solicits donations at the events. The effectiveness of the
22 activity is evaluated primarily based on how many screening tests
23 are performed, and only minimally based on contributions raised.

1 The employees are not compensated or evaluated based on
2 contributions raised.

3

4 *Conclusion*

5

6 E-74. The purpose, audience, and content criteria are met, and the
7 joint costs should be allocated.

8

9 E-75. Neither of the factors in **paragraph 9a** or **9b** is
10 determinative of whether the purpose criterion is met. Therefore,
11 other evidence, such as the indicators in **paragraph 10**, should be
12 considered. The purpose criterion is met based on the other
13 evidence, because (a) a process exists to evaluate measured program
14 results and accomplishments, and evaluation of the effectiveness of
15 the activity is skewed principally to the activity's effectiveness
16 in the accomplishment of program goals (Entity N evaluates the
17 effectiveness of the activity based on the number of screening
18 tests conducted as well as donations received and places more
19 weight on the number of tests conducted rather than on the
20 donations received); (b) the qualifications and duties of the
21 personnel performing the activity indicate that it is a program
22 activity (the employees are educated about ABC and the testing
23 procedures and do not otherwise perform fund-raising functions);
24 (c) the method of compensation for performing the activity does not

1 indicate that it is a fund-raising activity (the employees are not
2 compensated or evaluated based on contributions raised); and (d)
3 performing such programs helps accomplish Entity N's mission (to
4 prevent ABC disease).

5
6 E-76. The audience criterion is met because the audience (people
7 over 65 years of age) is selected based on its need to use or
8 reasonable potential use for the action called for by the program
9 component.

10
11 E-77. The content criterion is met because the activity calls for
12 specific action that is unrelated to providing contributions to
13 Entity N (being screened for the disease) and that will help
14 accomplish the entity's mission (to reduce the incidence of ABC
15 disease), and it explains the need for and benefits of the action
16 (to prevent ABC disease).

17

18

19 **Illustration 15**

20

21 *Facts*

22

23 E-78. Entity O's mission is to provide educational television
24 programming to residents in its area. Entity O owns a public

1 television station and holds a membership drive in which it
2 solicits new members. The drive is conducted by station employees
3 and consists of solicitations that are shown during long breaks
4 between the station's regularly scheduled programs. The audience
5 is members of the general public who watch the programs shown
6 during the drive. Member benefits include tokens of appreciation
7 with a nominal value.

8
9 *Conclusion*

10
11 E-79. The purpose, audience, and content criteria are not met, and
12 all costs should be charged to fundraising.

13
14 E-80. No program or management and general activity is conducted in
15 conjunction with the membership-development activity. Also, no
16 significant benefits or duties are connected with membership.
17 Therefore, the substance of the membership-development activities
18 is, in fact, fundraising.

19
20
21 **APPENDIX F - Illustrations of Allocation Methods**

22
23 F-1. Some commonly used cost allocation methods follow:
24

1 *Physical Units Method*

2

3 F-2. Joint costs are allocated to materials and activities in
4 proportion to the number of units of output that can be attributed
5 to each of the materials and activities. Examples of units of
6 output are lines, square inches, and physical content measures.
7 This method assumes that the benefits received by the fund-raising,
8 program, or management and general component of the materials or
9 activity from the joint costs incurred are directly proportional to
10 the lines, square inches, or other physical output measures
11 attributed to each component of the activity. This method may
12 result in an unreasonable allocation of joint costs if the units of
13 output, for example, line counts, do not reflect the degree to
14 which costs are incurred for the joint activity. For example, a
15 joint cost allocation based on line counts may not reflect the
16 purpose for which the activity was undertaken. Use of the physical
17 units method may also result in an unreasonable allocation if the
18 physical units cannot be clearly ascribed to fund raising, program,
19 or management and general. For example, direct mail and telephone
20 solicitations sometimes include content that is not identifiable
21 with fund raising, program, or management and general; or the
22 physical units of such content are inseparable.

23

24

1 *Illustration*

2

3 F-3. Assume a direct mail campaign is used to conduct programs of
4 the entity and to solicit contributions to support the entity and
5 its programs. Further, assume that the appeal meets the criteria
6 for allocation of joint costs to more than one function.

7

8 F-4. The letter and reply card include a total of one hundred
9 lines. Forty-five lines pertain to program because they educate
10 the recipient about the entity's program and include a call to
11 action by the recipient that will help accomplish the entity's
12 mission and that is unrelated to providing contributions to the
13 entity itself, while fifty-five lines pertain to the fund-raising
14 appeal. Accordingly, 45 percent of the costs are allocated to
15 program and 55 percent to fund-raising.

16

17

18 *Relative Direct Cost Method*

19

20 F-5. Joint costs are allocated to each of the components on the
21 basis of their respective direct costs. Direct costs are those
22 costs that are incurred in connection with the multipurpose
23 materials or activity and that are specifically identifiable with
24 a function (program, fund raising, or management and general).

1 This method may result in an unreasonable allocation of joint costs
2 if the joint costs of the materials and activity are not incurred
3 in approximately the same proportion and for the same reasons as
4 the direct costs of the materials and activity. For example, if a
5 relatively costly booklet informing the reader about the entity's
6 mission (including a call to action by the recipient that will help
7 accomplish the entity's mission and that is unrelated to providing
8 contributions to the entity itself) is included with a relatively
9 inexpensive fund-raising letter, the allocation of joint costs
10 based on the cost of these pieces may be unreasonable.

11
12
13 *Illustration*

14
15 F-6. The costs of a direct mail campaign that can be specifically
16 identified with program services are the costs of separate program
17 materials and a postcard which calls for specific action by the
18 recipient that will help accomplish the entity's mission and that
19 is unrelated to providing contributions to the entity. They total
20 \$20,000. The direct costs of the fund-raising component of the
21 direct mail campaign consist of the costs to develop and produce
22 the fund-raising letter. They total \$80,000. Joint costs
23 associated with the direct mail campaign total \$40,000 and would be
24 allocated as follows under the relative direct cost method:

1 Program \$20,000/\$100,000 x \$40,000 = \$8,000
2 Fund raising \$80,000/\$100,000 x \$40,000 = \$32,000

3
4

5 *Stand-Alone Joint-Cost-Allocation Method*

6

7 F-7. Joint costs are allocated to each component of the activity
8 based on the ratio that the cost of conducting each component would
9 have borne to the total costs of conducting each of the joint
10 components had each component been conducted independently. This
11 method assumes that efforts for each component in the stand-alone
12 situation are proportionate to the efforts actually undertaken in
13 the joint cost situation. This method may result in an
14 unreasonable allocation because it ignores the effect of each
15 function, that is performed jointly with other functions, on other
16 such functions. For example, the programmatic impact of a direct
17 mail campaign or a telemarketing phone message may be significantly
18 lessened when performed in conjunction with a fund-raising appeal.

19
20

21 *Illustration*

22

23 F-8. Assume that the joint costs associated with a direct mail
24 campaign including both program and fund-raising components are the

1 costs of stationery, postage, and envelopes at a total of \$100,000.
2 The costs of stationery, postage, and envelopes to produce and
3 distribute each component separately would have been \$90,000 for
4 the program component and \$70,000 for the fund-raising component.
5 Under the stand-alone joint-cost-allocation method, the \$100,000 in
6 joint costs would be allocated as follows: $\$90,000/\$160,000 \times$
7 $\$100,000 = \$56,250$ to program services and $\$70,000/\$160,000 \times$
8 $\$100,000 = \$43,750$ to fund raising.

9
10

1 **APPENDIX G - Illustrations of Disclosures**

2

3 G-1. The disclosures discussed in paragraphs 17 and 18 are
4 illustrated below. Alternative 1 reports the required and
5 encouraged information in narrative format. Alternative 2 reports
6 that information in tabular format, as well as information
7 concerning joint costs incurred for each kind of activity by
8 functional classification, which is neither required nor
9 encouraged, but which is not prohibited.

10

11 **Alternative 1**

12

13 Note X. Allocation of Joint Costs

14

15 In 19XX, the organization conducted activities that
16 included requests for contributions, as well as program
17 and management and general components. Those activities
18 included direct mail campaigns, special events, and a
19 telethon. The costs of conducting those activities
20 included a total of \$310,000 of joint costs, which are
21 not specifically attributable to particular components of

1 the activities (joint costs). [Note to reader: The
2 following sentence is encouraged but not required.]
3 Joint costs for each kind of activity were \$50,000,
4 \$150,000, and \$110,000 respectively. These joint costs
5 were allocated as follows:

6		
7	Fund raising	\$180,000
8	Program A	80,000
9	Program B	40,000
10	Management and general	<u>10,000</u>
11	Total	<u>\$310,000</u>
12		

13 **Alternative 2**

14
15 Note X. Allocation of Joint Costs

16
17 In 19XX, the organization conducted activities that
18 included appeals for contributions and incurred joint

1 costs of \$310,000. These activities included direct mail
2 campaigns, special events, and a telethon. Joint costs
3 were allocated as follows:
4

	Direct Mail	Special Events	Telethon	Total	
5					
6	Fund raising	\$40,000	\$50,000	\$90,000	\$180,000
7	Program A	10,000	65,000	5,000	80,000
8	Program B		25,000	15,000	40,000
9	Management				
10	and general		10,000		10,000
11	Total	<u>\$50,000</u>	<u>\$150,000</u>	<u>\$110,000</u>	<u>\$310,000</u>
12					

13 [Note to reader: Shading is used to highlight information that is
14 neither required nor prohibited. However, entities may prefer to
15 disclose it. Disclosing the total joint costs for each kind of
16 activity (\$50,000, \$150,000, and \$110,000) is encouraged but not
17 required.]
18

1 APPENDIX H - Contrast of Guidance in SOP 87-2 With the Guidance in
2 This SOP¹

3		
4	<u>This SOP</u>	<u>SOP 87-2</u>
5	Applies to all entities,	Applied to entities that
6	including state and local	follow the AICPA Industry
7	governments, required to report	Audit Guide <i>Audits of</i>
8	fund-raising expenses or	<i>Voluntary Health and Welfare</i>
9	expenditures.	<i>Organizations</i> or SOP 78-10.

¹ In August 1996, the AICPA issued the Audit and Accounting Guide *Not-for-Profit Organizations*, which superseded SOP 87-2 because the guidance in SOP 87-2 is incorporated into paragraphs 13.31 to 13.40 of the Guide. Also, *Not-for-Profit Organizations* superseded the AICPA Industry Audit Guide *Audits of Voluntary Health and Welfare Organizations* and SOP 78-10. *Not-for-Profit Organizations* applies to all not-for-profit organizations other than those required to follow the Audit and Accounting Guide *Health Care Organizations*. Therefore, incorporating the guidance in SOP 87-2 into *Not-for-Profit Organizations* broadened the scope of the guidance previously included in SOP 87-2 to all not-for-profit organizations other than those required to follow *Health Care Organizations*. The discussion in this SOP of SOP 87-2 refers to both SOP 87-2 and the guidance included in paragraphs 13.31 to 13.40 of *Not-for-Profit Organizations*, except that the guidance in *Not-for-Profit Organizations* applies to all not-for-profit organizations other than those required to follow *Health Care Organizations*.

1	Covers <i>all</i> costs of joint	Covers only joint costs of
2	activities, with costs otherwise	joint activities.
3	identifiable with program or	
4	management and general charged to	
5	fund raising unless the criteria	
6	in the SOP are met.	
7	Criteria of purpose, audience,	Unclear concerning whether all
8	and content should all be met in	criteria should be met in
9	order to charge costs of the	order to charge costs of the
10	activity to program or management	activity to program or
11	and general.	management and general.
12	Neither prescribes nor prohibits	Neither prescribes nor
13	any allocation methods. Includes	prohibits any allocations
14	a discussion to help users	methods. No illustrations are
15	determine whether an allocation	provided.
16	is reasonable, and provides some	
17	illustrations.	

1 Requires note disclosures about Requires less extensive note
2 the types of activities for which disclosures: total amount
3 joint costs have been incurred, allocated during the period
4 amounts allocated during the and amounts allocated to each
5 period, and portions allocated to functional expense category.
6 each functional expense
7 or expenditure category.

8

1

2 **Glossary**

3

4 **Activities.** Activities are efforts to accomplish specific
5 objectives. Some activities include producing and distributing
6 materials. For example, if an entity undertakes a mass mailing
7 that includes a letter and a pamphlet, producing and distributing
8 the letter and pamphlet are part of the activity. Other activities
9 may include no materials, such as an annual dinner or a radio
10 commercial.

11

12 **Compensation or fees.** Reciprocal transfers of cash or other assets
13 in exchange for services performed.

14

15 **Contribution.** Contributions are unconditional transfers of cash or
16 other assets to an entity or a settlement or cancellation of its
17 liabilities in a voluntary nonreciprocal transfer by another entity
18 acting other than as an owner.

19

20 **Costs of joint activities.** Costs of joint activities are costs
21 incurred for a joint activity. Costs of joint activities may
22 include joint costs and costs other than joint costs. Costs other
23 than joint costs are costs that are identifiable with a particular
24 function, such as fund raising, program, or management and general.

1 For example, some costs incurred for printing, paper, professional
2 fees, and salaries to produce donor cards are not joint costs,
3 though they may be incurred in connection with conducting joint
4 activities.

5
6 **Fund raising activities.** Fund-raising activities are activities
7 undertaken to induce potential donors to contribute money,
8 securities, services, materials, facilities, other assets, or time.
9 They include publicizing and conducting fund-raising campaigns;
10 maintaining donor mailing lists; conducting special fund-raising
11 events; preparing and distributing fund-raising manuals,
12 instructions, and other materials; and conducting other activities
13 involved with soliciting contributions from individuals,
14 foundations, governments, and others.

15
16 **Help accomplish the entity's mission.** Actions that help accomplish
17 the entity's mission are actions that either benefit the recipient
18 (such as by improving the recipient's physical, mental, emotional,
19 or spiritual health and well-being) or benefit society by
20 addressing societal problems.

21
22 **Joint activity.** A joint activity is an activity that is part of
23 the fund-raising function and one or more other functions, such as

1 program, management and general, membership development, or any
2 other functional category used by the entity.

3
4 *Joint costs.* Joint costs are the costs of conducting joint
5 activities and that are not identifiable with a particular
6 component of the activity. For example, the cost of postage for a
7 letter that includes both fund-raising and program components is a
8 joint cost. Joint costs may include the costs of salaries,
9 contract labor, consultants, professional fees, paper, printing,
10 postage, telephones, airtime, and facility rentals.

11
12 *Management and general activities.* Management and general
13 activities are those that are not identifiable with a single
14 program, fund-raising activity, or membership-development activity
15 but that are indispensable to the conduct of those activities and
16 to an organization's existence. They include oversight, business
17 management, general recordkeeping, budgeting, financing, soliciting
18 revenue from exchange transactions, such as government contracts
19 and related administrative activities, and all management and
20 administration except for direct conduct of program services or
21 fund-raising activities. Disseminating information to inform the
22 public of the organization's "stewardship" of contributed funds,
23 announcements concerning appointments, and the annual report, among
24 other activities, are management and general activities, as are

1 soliciting funds other than contributions, including exchange
2 transactions (whether program-related or not).

3
4 **Medium.** A medium is a means of mass communication, such as direct
5 mail, direct response advertising, or television.

6
7 **Membership development activities.** Membership development
8 activities include soliciting for prospective members and
9 membership dues, membership relations, and similar activities. If
10 there are no significant benefits or duties connected with
11 membership, however, the substance of membership-development
12 activities may, in fact, be fund-raising.

13
14 **Program activities.** Program activities are the activities that
15 result in goods or services being distributed to beneficiaries,
16 customers, or members that fulfill the purposes or mission for
17 which the organization exists. Those services are the major
18 purpose for and the major output of the organization and often
19 relate to several major programs. For example, a large university
20 may have programs for student instruction, research, and patient
21 care, among others. Similarly, a health and welfare organization
22 may have programs for health and family services, research,
23 disaster relief, and public education, among others.

24

1 *Public Education.* Educational activities that do not motivate the
2 audience to action.

3

4

5

6

