Joint Costs

Nonprofit organizations often hold events, produce newsletters or videos, or conduct other activities that serve their programs as well as provide fundraising opportunities. If certain criteria are met, the costs related to these joint activities can be allocated in part to program or management and general expenses and in part to fundraising expenses. However, the accounting for these joint costs can be complex. In addition, nonprofit rating agencies use the percentage of expenses devoted to program, as well as the costs of fundraising, as key components in the formulas they use to monitor, rate and compare nonprofits. There has been increased scrutiny by the rating agencies, as well as the media, in nonprofits' reporting of joint costs, questioning the subjective nature of the allocation and noting the risk of improper allocation as nonprofits may be pressured to show the highest program percentage as possible. Therefore, it is important for an organization's management, accounting, and development personnel involved in planning fundraising activities to be aware of the accounting requirements regarding joint activities to ensure they are properly applied. The "Accounting for Costs of Activities that Include Fundraising" subsections of FASB ASC 958-720 provide the accounting standards for joint activities.

What are joint activities?

Joint activities are activities that have a fundraising function and also have elements of one or more other functions, such as program, management and general, or membership development. A joint activity can encompass a variety of endeavors such as a special event, direct mail campaign, telemarketing campaign, magazine or newsletter, video, etc. The organization needs to use judgment in determining whether an activity should be considered a joint activity. There is no clear-cut guidance because each situation is different and must be evaluated based on the specific circumstances surrounding that activity.

Example

Newsletter: An organization prepares a monthly newsletter that contains information related to the organization, including its mission, a description of many of its programs, and news related to the current activities of the organization. The newsletter contains no explicit solicitation within the newsletter, but included in the mailing with the newsletter is a donation reply envelope. This activity may qualify as a joint activity because it appears to have a fundraising function as well as elements of one or more other functions.

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Presumption

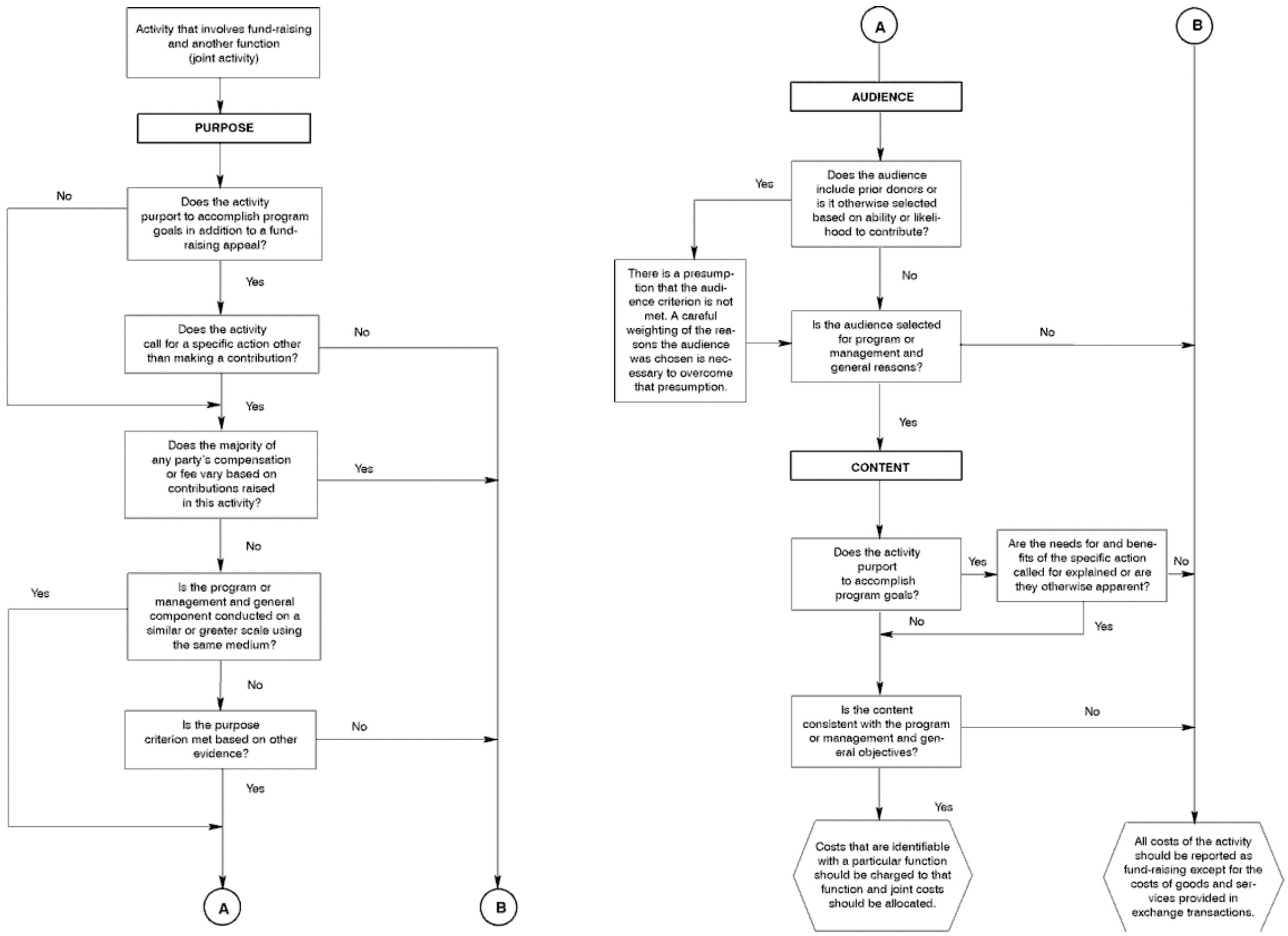
It is presumed that, in circumstances in which joint activities are conducted, the expenses should be reported as fundraising expenses rather than as program or management and general expenses. However, the accounting standards allow the allocation of joint costs if certain criteria are met.

Overcoming the Presumption

If all three of the following criteria are satisfied, the presumption that expenses should be reported as fundraising costs is overcome and joint costs can be allocated between fundraising and the appropriate program or management and general function.

- **Criteria 1: Purpose** – The purpose of the fundraising activity includes accomplishing program or management and general functions, and specifically includes a call to action to help accomplish the organization's mission. If there is a call to action, the following three factors should also be considered:
  - ◊ A majority of the compensation or fees included in the costs cannot be based on contributions raised. For

Determining if Allocation is Allowed



example, if a commission-based fundraising consultant is used for any part of the activity, it cannot be considered a joint activity.

- ◊ A similar program or administrative activity is conducted as a separate activity on a similar scale (or greater).
- ◊ All available evidence (positive and negative) should be considered to determine whether, based on the weight of the other evidence, the purpose criterion is met.

- **Criteria 2: Audience**—Generally, the audience does not include prior donors and is not selected based on their likelihood to contribute.
- **Criteria 3: Content**—The content of the activity must support the program, management and general or other (nonfundraising) functions.

Allocation methods

If all three of the criteria have been met, joint costs should be allocated. Joint costs are the costs of conducting joint activities that are not identifiable with a particular component of the activity. For example, the cost of postage for mailing the newsletter is a joint cost, while the wage cost for the staff person who prepares the program portion of the newsletter is considered a direct program expense, not a joint cost. The allocation methodology used to allocate joint costs should be rational and systematic, resulting in a reasonable allocation of costs that is consistently applied. Here are three examples of allocation methods:

- Physical units method—joint costs are allocated to the number of units such lines or square inches based on the proportion of the message that represents program information, a fundraising appeal, and so forth.
- Relative direct cost method—joint costs are allocated in the same proportion as the direct costs.
- Stand-alone method — joint costs are allocated based on what the items in the joint costs would have cost if each component was conducted independently.

Joint costs are challenging and complex to identify and properly allocate. We recommend you Contact Us if you think you have costs that could be joint costs and we can give you more guidance beyond this summarized article.

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