

# **IRS Form 990<sup>1</sup> and GAAP Definitions For Fundraising Expenses**

## **Including Functional Expense Accounting For Program, Management & General and Fundraising**

By FEP-ABM<sup>2</sup> Team, [FEP@afpglobal.org](mailto:FEP@afpglobal.org), [www.afpfep.org/tools](http://www.afpfep.org/tools)  
[DRAFT/2-19-19, IRS Form 990 and GAAP definitions  
for fundraising and functional accounting - Draft1.docx]

### **FEP-ABM is a Fundraising and Accounting Profession Collaborative**

Organization-wide functional expense accounting and reporting are IRS Form 990 and nonprofit GAAP requirements.

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### **I - Three authoritative and consistent definitions of fundraising expenses**

**IRS'** definition: "Fundraising expenses are the expenses incurred in soliciting cash and noncash contributions, gifts, and grants. Report as fundraising expenses all expenses, including allocable overhead costs, incurred in: (a) publicizing and conducting fundraising campaigns and (b) soliciting bequests and grants from individuals, foundations, other organizations, or governmental units. This includes expenses incurred in participating in federated fundraising campaigns; preparing and distributing fundraising manuals, instructions, and other materials; and preparing to solicit or receive contributions," Instructions for "Column (D) – Fundraising," Form 990, Part IX. Statement of Functional Expenses.

Fund-raising expenses are defined by **FASB** in paragraph 28 of SFAS 117 to include, "publicizing and conducting fund-raising campaigns; maintaining donor mailing lists; conducting special fund-raising events; preparing and distributing fund-raising manuals, instructions, and other materials; and conducting other activities involved with soliciting contributions from individuals, foundations, government agencies, and others."

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<sup>1</sup> <https://www.irs.gov/pub/irs-pdf/i990.pdf>

<sup>2</sup> The AFP Research Council, Adventist Philanthropic Services to Institutions and Greater Washington Society of CPAs are leadership sponsors of the FEP-ABM Fundraising and Accounting Professions Collaboration Project and "Applying Activity-Based Management Guidelines for Design of Fundraising Activity Structures."

Para. 13.34 of the **AICPA** audit guide expands that definition by saying that, "Fund-raising activities involve inducing potential donors to contribute money, securities, services, materials, facilities, other assets, or time." <sup>3</sup>

## **II - IRS definitions for the three functions in Part IX. Statement of Functional Expenses:**

"Statement of Financial Accounting Standards No. 117, *Financial Statement of Not-for-Profit Organizations* (SFAS 117) issued by the FASB, requires that (in most cases) expenses of not-for-profit organizations be reported in three categories of activities: program, management and general, and fundraising"<sup>4</sup>.

### **Column (A)—Total Expenses**

### **Three Functions**

#### **Column (B)—Program Services**

*Program services* are mainly those activities that further the organization's exempt purposes. Include costs to secure a "grant," or contract, to conduct research, produce an item, or perform a program service, if the activities are conducted to meet the grantor's or other contracting party's specific needs. Do not report these costs as fundraising expenses in column (D). Costs to solicit restricted or unrestricted grants to provide services to the general public should be reported in column (D).

#### **Column (C)—Management and General**

Use column (C) to report expenses that relate to the organization's overall operations and management, rather than to fundraising activities or program services. Overall management usually includes the salaries and expenses of the organization's chief executive officer and his or her staff, unless a part of their time is spent directly supervising program services or fundraising activities. In that case, their salaries and expenses should be allocated among management, fundraising, and program services. Organizations must also report the following in column (C): costs of board of directors' meetings; committee meetings, and staff meetings (unless they involve specific program services or fundraising activities); general legal services; accounting (including patient accounting and billing); general liability insurance; office management; auditing, human resources, and other centralized services; preparation, publication, and distribution of an annual report; and management of investments. Don't use this column to report costs of special meetings or other activities that relate to fundraising or specific program services.

Program services are defined (in paragraph 27 of SFAS 117) as, "the activities that result in goods and services being distributed to beneficiaries, customers, or members that fulfill the purposes or mission for which the organization exists." There are numerous kinds of program services offered by not-for-profit organizations and, thus, there are many different kinds of expenses that can qualify as program expenses.<sup>5</sup>

### **Column (D)—Fundraising**

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<sup>3</sup> Richard F. Larkin, CPA, BDO Seidman, LLP - <https://www.nonprofitaccountingbasics.org/fundraising/accounting-fundraising-expenses>.

<sup>4</sup> *ibid*

<sup>5</sup> *ibid*

Fundraising expenses are the expenses incurred in soliciting cash and noncash contributions, gifts, and grants. Report as fundraising expenses all expenses, including allocable overhead costs, incurred in: (a) publicizing and conducting fundraising campaigns and (b) soliciting bequests and grants from individuals, foundations, other organizations, or governmental units that are reported on Part VIII, line 1. This includes expenses incurred in participating in federated fundraising campaigns; preparing and distributing fundraising manuals, instructions, and other materials; and preparing to solicit or receive contributions. Report direct expenses of fundraising events in Part VIII, line 8b, rather than in Part IX, column (D). However, report indirect expenses of fundraising events, such as certain advertising expenses, in Part IX, column (D) rather than in Part VIII, line 8b.

The organization must report amounts accurately and document the method of allocation in its records. Report any expense described in lines 1–23 in the appropriate line; don't report such expense in line 24.

### III - Accumulating Expenses in Form990 Part IX Line Items

Functional accounting calls for accumulating total expenses by natural or object expense categories. In Form 990 Part IX expenses are accumulated as **total line-item expenses** in each of the 26 line items in column A. Distribution of expenses to functions is not involved in the accumulation of expenses by line item.

FASB and AICPA have not established a standard set of natural or object expense categories. On the other hand, IRS has established specific requirements for, and defined 26 object expense line items for Form 990, Part IX. Statement of Functional Expenses (See line item definitions in Appendix A - IRS line item definitions in Part IX. Statement of Functional Expenses):

- 1 Grants and other assistance to domestic organizations and domestic governments.
- 2 Grants and other assistance to domestic individuals.
- 3 Grants and other assistance to foreign organizations, foreign governments, and foreign individuals.
- 4 Benefits paid to or for members
- Lines 1 to 4 above are not applicable to the fundraising function:**
- 5 Compensation of current officers, directors, trustees, and key employees
- 6 Compensation not included above, to disqualified persons
- 7 Other salaries and wages
- 8 Pension plan accruals and contributions
- 9 Other employee benefits
- 10 Payroll taxes
- 11 Fees for services (non-employees):
  - a Management
  - b Legal
  - c Accounting
  - d Lobbying
  - e Professional fundraising services. See Part IV, line 17
  - f Investment management fees
  - g Other.
- 12 Advertising and promotion
- 13 Office expenses
- 14 Information technology
- 15 Royalties
- 16 Occupancy
- 17 Travel

- 18 Payments of travel or entertainment expenses for any federal, state, or local public officials
- 19 Conferences, conventions, and meetings
- 20 Interest
- 21 Payments to affiliates
- 22 Depreciation, depletion, and amortization
- 23 Insurance
- 24 Other expenses.
  - a
  - b
  - c
  - d
  - e All other expenses
- 25 Total functional expenses. Add lines 1 through 24e
- 26 Joint costs.

#### **IV - Distributing Total Line-Item Expenses in Part IX column A to Program, Management and General and Fundraising Functions (columns B, C and D).**

Distribution of line-item or object expenses to multiple functions in functional accounting consists of, first, assigning direct costs to functions by line item and, second, allocation of the remaining indirect costs to functions by [line item or ??] indirect cost pools.

**Nonprofit accountants are responsible** for designing, implementing and operating organization-wide “functional accounting” systems and procedures for the nonprofits they serve. FASB requires all nonprofits to account for and report the expenses of three core functions: program services, management and general and fundraising. There is general agreement on the design of these three GAAP functions, which are implemented and operated by the NPO’s accountants. Use of organization-wide staff time reporting by pay period is considered necessary for reliable internal and external functional accounting and reporting.

Some expenses are entirely related **directly** to the rendering of program services, such as the costs of food distributed by a food bank or medicine used in a clinic, or the salary of the nurse who runs the clinic. Some are entirely fund-raising, such as the salary of the director of development and his/her staff. And some are **allocations** of organization expenses that benefit more than one function, such as the salary of the executive director of the organization - who spends some of his/her time directly overseeing program activities, some time in general management, and some in fundraising. This expense will be allocated based on the time spent in each activity. Other expenses such as rent and utilities for a multi-purpose building will be similarly allocated - often based on the allocation of the salaries of the persons occupying the building.<sup>6</sup>

<sup>6</sup> Richard F. Larkin, CPA, BDO Seidman, LLP - <https://www.nonprofitaccountingbasics.org/fundraising/accounting-fundraising-expenses>

The guidance below for distributing costs to government funded projects in OMB Uniform Cost Principles (2 cfr 200)<sup>7</sup> is employed to illustrate how finance department functional accounting systems distribute **total line-item expenses** in Part IX, column A to corresponding line items in columns B, C and D. IRS, FASB and AICPA do not provide the same level of detailed guidance for cost distribution by function.

Distributing **Total Line-Item Expenses** (Part IX column A) to Program, Management and General and Fundraising Functions (columns B, C and D) consists of first assigning direct costs to line-item entries in columns B, C and D of Part IX. Once this step is completed, allocations of indirect costs are added to the line item **direct cost** entries in columns B, C and D. **Indirect costs** for each line item equals **total line-item expenses** minus the line item's **direct costs**.

**Direct costs** are the portion of **total line-item expenses** that can be identified specifically with Program, Management and General or Fundraising (columns B, C or D) and that can be assigned to a specific function with a high degree of accuracy.

**Direct costs** include purchases of products and services by a function – program services (B), executive office (C) or fundraising (D) -- for its use only. Part IX line items that usually have **direct costs** are 11 Fees for services, 12 Advertising and promotion, 13 Office expenses, 14 Information technology, 15 Royalties, 17 Travel, 19 Conferences, conventions, and meetings and 24 Other expenses.

**Direct costs** include **salaries and wages** – Part IX line items 5, 6 and 7. **Salaries and wages**, are not allocated but assigned to columns B, C and D as **direct costs** based on staff time records (FTE%). Assignments of salaries and wages to columns B, C and D are “supported by personnel activity reports” maintained by all employees -- daily, by pay period or monthly. Daily **staff time records** are the most reliable.

**Indirect costs** are the portion of **total line-item expenses** that cannot be identified specifically with program, management and general or fundraising (columns B, C or D) and that require allocation to these functions. **Indirect costs** for each line item equals **total line-item expenses** minus the line item's **direct costs**.

**Indirect costs** include employee fringe benefits and payroll taxes (lines 8, 9 and 10), 16 Occupancy, 20 Interest, 22 Depreciation, depletion, and amortization and 23 Insurance.

**Indirect costs** are **allocated** to columns B, C and D using an **indirect cost allocation percentage**.

“**Simplified**” **indirect cost allocation percentages** are based on **salaries and wages** (\$%) and/or **staff time records** (FTE%).

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<sup>7</sup> <https://www.gpo.gov/fdsys/pkg/CFR-2014-title2-vol1/pdf/CFR-2014-title2-vol1-part200-subpartE.pdf>

## Allocating Indirect Expenses

Form 990 Part IX - <https://www.irs.gov/pub/irs-pdf/i990.pdf> page 42

**“Direct costs** are expenses that can be identified specifically with an organization's activity or project, and that can be assigned to an activity or project with a high degree of accuracy.

**“Indirect costs** are costs that cannot be identified specifically with an activity or project. For example, a computer bought by a university specifically for a research project is a direct cost. In contrast, the costs of software licensing for programs that run on all the university's computers are indirect costs.

“Colleges, universities, hospitals, and other organizations that **incur** indirect expenses in various cost centers (such as organizational memberships, books and subscriptions, and regular telecommunications costs) can allocate and report such expenses in the following manner:

1. Report the expenses of all indirect cost centers in column (C), lines 5 through 24.
2. As a separate line item of line 24, enter “Allocation of [name of indirect cost center] expenses.”
  - a. If any of the cost center's expenses are allocated to expenses listed in Part VIII such as the expenses attributable to fundraising events and activities, enter such expenses as a negative figure in columns (A) and (C).
  - b. Allocate expenses to column (B) or (D) as positive amounts.
  - c. Add the amounts in columns (B) and (D) and enter the sum as a negative offsetting amount in column (C).

“Don't make any entries in column (A) for these offsetting entries.

“Example. An organization reports in column (C) \$50,000 of its actual management and general expenses and \$100,000 of expenses of an indirect cost center that are allocable in part to other functions. The total of lines 5 through 24 of column (C) would be \$150,000 before the indirect cost center allocations were made. Assume that of the \$100,000 total expenses of the cost center, \$10,000 was allocable to fundraising; \$70,000 to various program services; \$15,000 to management and general functions; and \$5,000 to special events and activities.

“To report this in Part IX under this optional method:

1. Indicate the cost center, the expenses of which are being allocated, on line 24, as “Allocation of [specify the indirect cost center] expenses;”
2. Enter a decrease of \$5,000 on the same line in the column (A), Total expenses, representing the fundraising event expenses that were already reported in Part VIII, on line 8b;
3. Enter \$70,000 on the same line in column (B), Program Service Expenses;
4. Enter \$10,000 on the same line in column (D), Fundraising expenses; and
5. Enter a decrease of \$85,000 on the same line in column (C), Management and General Expenses, to represent the allocations to functional areas other than management and general.

“After making these allocations, the column (C), line 25 total functional expenses would be \$65,000, consisting of the \$50,000 actual management and general expense amount and the \$15,000 allocation of the aggregate cost center expenses to management and general.

“The above is an example of a one-step allocation that shows how to report the allocation in Part IX. This reporting method would actually be more useful to avoid multiple-step allocations involving two or more cost centers. Without this optional reporting method, the total expenses of the first cost center would be allocated to the other functions, and might include an allocation of part of these expenses to another cost center. The expenses of the second cost center would then be allocated to other functions and, perhaps, to other cost

centers, and so on. The greater the number of these cost centers that are allocated out, the more difficult it is to preserve the object classification identity of the expenses of each cost center (for example, salaries, interest, supplies, etc.). Using the reporting method described above avoids this problem.

“The intent of the above instructions is only to facilitate reporting indirect expenses by both object classification and function. These instructions don't authorize the allocation to other functions of expenses that should be reported as management and general expenses. “

Table 1.1 – Allocation Indirect Expenses – Example

[print screen] <https://www.irs.gov/pub/irs-pdf/i990.pdf>, page 43

The screenshot shows the 2017 Instructions for Form 990, page 43. The page title is "2017 Instructions for Form 990 Return of Organization Exempt From Income Tax". The page number is "43 / 101". The page content includes instructions for Line 1, a "TIP" box, and a table titled "Allocating Indirect Expenses—Example".

**Line 1** Enter the amount that the organization, at its own discretion, paid in grants to domestic organizations and domestic governments, United Way and similar federated fundraising organizations should report grants to member or participating agencies on line 1. Organizations must report voluntary grants to state or local affiliates for specific (restricted) purposes or projects on line 1.

If the organization reported on line 1 more than \$5,000 of grants or other assistance to any domestic organization or to any domestic government, the organization must complete Parts I and II of Schedule I (Form 990), Grants and Other Assistance to Organizations, Governments, and Individuals in the United States.

**TIP** Compensation for Part IX is reported based on the accounting method and tax year used by the organization, rather than the definitions and calendar year used to complete Part VII or Schedule J (Form 990) regarding compensation of certain officers, directors, trustees, and other employees.

**Allocating Indirect Expenses—Example**

Line	(A)	(B)	(C)	(D)
5-24a	\$150,000	-	\$150,000	-
24b Allocation of \$100,000 indirect cost center expenses reported in (C)	(5,000)	70,000	(85,000)	10,000
25	\$145,000	\$70,000	\$65,000	\$10,000

Instructions for Form 990 -43-

Multiple fundraising functional expense accounting would be an add-on to the organization wide system. That is, the above organization-wide functional expense accounting methodology in Section IV for distributing **total line-item expenses** (lines 5 to 24) in column A of Part IX to three functions (columns B, C and D) can also be employed for distributing **total line-item expenses** to multiple fundraising functions. For example, a nonprofit's organization-wide functional accounting system can be expanded to include the core fundraising program functions such as annual giving, special events, major individual gifts, special projects (corporations and foundations), capital projects and planned giving within the fundraising function. These core fundraising program functions can be further subdivided into multiple sub-functions by solicitation activities such as direct mail, donor clubs and internet within core fundraising program functions – see Table 1.2.

## V - Organization-wide staff time reporting by pay period

On average, the salaries, fringe benefits and other indirect costs that are allocated using time-sheet percentages make up a combined total 70 to 80 percent of total functional expenses.

[Based on 990s of three leading national NPOs]

**NonprofitAccountingBasics.org says that staff time sheets are the most accurate method of allocation of salaries, fringe benefits and other indirect and overhead expenses:**

“Not-for-profits must record expenses on a functional basis. Salaries are generally the organization’s largest expense. Allocating this expense to the various functions on an equitable and consistent basis is the key to properly reflecting the activity of the not-for-profit.

“Time sheets are the most accurate method of allocating salary expense. Time sheets should be submitted by all employees for each pay period. The hours should be converted into percentages. The salary for the period is then allocated to the various functions based upon the resulting percentages.

“Fringe benefits and payroll taxes can be allocated based upon the time allocations. Fringe benefits include expenses incurred by the organization for such benefits as health insurance, the employer share of pension costs, and life insurance premiums.



“The organization’s overhead expenses can also be allocated using these percentages. Time sheets can also be used to monitor vacation, holiday, and sick leave.”<sup>8</sup>

**Table 1.2**

Organization Name  
TIME SHEET

Employee: \_\_\_\_\_  
Pay Period: \_\_\_\_\_

Dates															Total (A)	%	(Accounting Dept Only) Salary (C=B*Atot)
	S	M	T	W	TH	F	SA	S	M	T	W	TH	F	SA			
Program		0	0	0	0	0			0	0	0	0	0		0	0%	\$ 0
Program		3	3	3	3	3			3	3	3	3	3		30	37%	\$ 562
Program		0	0	0	0	0			0	0	0	0	0		0	0%	\$ 0
Program		5	5	5	5	5			5	5	5	5	5		50	62%	\$ 937
Program		0	0	0	0	0			0	0	0	0	0		0	0%	\$ 0
Program		0	0	0	0	0			0	0	0	0	0		0	0%	\$ 0
Program		0	0	0	0	0			0	0	0	0	0		0	0%	\$ 0
Program		0	0	0	0	0			0	0	0	0	0		0	0%	\$ 0
Program		0	0	0	0	0			0	0	0	0	0		0	0%	\$ 0
Program		0	0	0	0	0			0	0	0	0	0		0	0%	\$ 0
M&G		0	0	0	0	0			0	0	0	0	0		0	0%	\$ 0
Fundraising		0	0	0	0	0			0	0	0	0	0		0	0%	\$ 0
Vacation		0	0	0	0	0			0	0	0	0	0		0	0%	\$ 0
Sick		0	0	0	0	0			0	0	0	0	0		0	0%	\$ 0
Holiday		0	0	0	0	0			0	0	0	0	0		0	0%	\$ 0
Total	0	8	8	8	8	8	0	0	8	8	8	8	8	0	80	100%	\$ 1,500

"sample\_time\_sheet\_2.xls," attachment to *Time Sheets*,

Patricia A. O'Malley, CPA, <https://www.nonprofitaccountingbasics.org/payroll/time-sheet>

<sup>8</sup> Patricia A. O'Malley, CPA, Time Sheets, <https://www.nonprofitaccountingbasics.org/payroll/time-sheet>

## VI - IRS line item definitions in Part IX. Statement of Functional Expenses

<https://www.irs.gov/pub/irs-pdf/i990.pdf>, page 41

### Lines 1 through 4 - Grants and Other Assistance to Governments, Organizations, and Individuals

[For fundraising expense accounting purposes Lines 1 to 4 are not applicable]

#### Line 5.

Enter the total **compensation** paid to current **officers, directors, trustees, and key employees** (as defined in Part VII) for the organization's **tax year**. Compensation includes all forms of income and other benefits earned or received from the filing organization, common paymasters, and payroll/reporting agents in return for services rendered to the filing organization, including compensation reported on Forms W-2 and 1099, pension plan contributions and accruals, and other employee benefits, but does not include non-compensatory expense reimbursements or allowances. Report all compensation amounts relating to such an individual, including those related to services performed in a capacity other than as an officer, director, trustee, or key employee.

**Compensation** for Part IX is reported based on the accounting method and **tax year** used by the organization, rather than the definitions and calendar year used to complete Part VII or Schedule J (Form 990) regarding compensation of certain **officers, directors, trustees, and other employees**.

#### Line 6.

Section 501(c)(3), 501(c)(4), and 501(c)(29) organizations must report the total **compensation** and other distributions provided to **disqualified persons** and persons described in section 4958(c)(3)(B) to the extent not included on line 5. See *Appendix G. Section 4958 Excess Benefit Transactions*. Compensation includes all forms of income and other benefits earned or received from the filing organization, common paymasters, and payroll/reporting agents in return for services rendered to the filing organization, including compensation reported on Forms W-2 and 1099, pension plan contributions and accruals, and other employee benefits, but does not include non-compensatory expense reimbursements or allowances.

#### Line 7.

Enter the total amount of **employee** salaries, wages, fees, bonuses, severance payments, and similar amounts paid or provided from the filing organization, common paymasters, and payroll/reporting agents in return for services rendered to the filing organization that aren't reported on line 5 or 6.

#### Line 8.

Enter the employer's share of contributions to, or accruals under, qualified and nonqualified pension and deferred compensation plans for the year. The organization should include contributions made by the filing organization, common paymasters, and payroll/reporting agents to the filing organization's sections 401(k) and 403(b) pension plans on behalf of **employees**. However, it should not include contributions to qualified pension, profit-sharing, and stock bonus plans under section 401(a) solely for the benefit of current or former **officers, directors, trustees, key employees, or disqualified persons**, which are reportable on line 5 or 6.

**Line 9. Other employee benefits.**

Enter contributions by the filing organization, common paymasters, and payroll/reporting agents to the filing organization's employee benefit programs (such as insurance, health, and welfare programs that aren't an incidental part of a pension plan included on line 8), and the cost of other employee benefits. For example, report expenses for employee events such as a picnic or holiday party on line 9. Don't include **contributions** on behalf of current or former **officers, directors, trustees, key employees** or other persons that were included on line 5 or 6.

**Line 10. Payroll taxes.**

Enter the amount of federal, state, and local payroll taxes for the year but only those taxes that are imposed on the organization as an employer. This includes the employer's share of social security and Medicare taxes, the federal unemployment tax (FUTA), state unemployment compensation taxes, and other state and local payroll taxes. Don't include on line 10 taxes withheld from employees' salaries and paid to various governmental units such as federal, state, and local income taxes and the employees' shares of social security and Medicare taxes. Such withheld amounts are reported as compensation.

**Line 11. Fees for services paid to non-employees (independent contractors).**

Enter on lines 11a through 11g amounts for services provided by **independent contractors** for management, legal, accounting, lobbying, **professional fundraising services**, investment management, and other services, respectively. Include amounts whether or not a Form 1099 was issued to the **independent contractor**. Don't include on line 11 amounts paid to or earned by **employees**, officers, directors, trustees, or disqualified persons for these types of services, which must be reported on lines 5 through 7.

If the organization is able to distinguish between fees paid for independent contractor services and expense payments or reimbursements to the contractor(s), report the fees paid for services on line 11 and the expense payments or reimbursements on the applicable lines in Part IX (including line 24 if no other line is applicable). If the organization is unable to distinguish between service fees and expense payments or reimbursements, report all such amounts on line 11.

**Line 11a. Management fees.**

Enter the total fees charged for management services provided by outside firms and individuals.

**Line 11b. Legal fees.**

Enter the total legal fees charged by outside firms and individuals. Don't include any penalties, fines, settlements, or judgments imposed against the organization as a result of legal proceedings. Report those expenses on line 24. Report any amounts for lobbying services provided by attorneys on line 11d.

**Line 11c. Accounting fees.**

Enter the total accounting and auditing fees charged by outside firms and individuals.

**Line 11d. Lobbying fees.**

Enter amounts for activities intended to influence foreign, national, state, or local legislation, including direct **lobbying** and grassroots lobbying.

**Line 11e. Professional fundraising fees.**

Enter amounts paid for **professional fundraising services**, including solicitation campaigns and advice or other consulting services supporting in-house fundraising campaigns. If the organization is able to distinguish between fees paid for professional fundraising services and amounts paid for

fundraising expenses such as printing, paper, envelopes, postage, mailing list rental, and equipment rental, then fees paid for professional fundraising services should be reported on line 11e and amounts paid for fundraising expenses should be reported on line 24 as other expenses. If the organization is unable to distinguish between these amounts, it should report all such fees and amounts on line 11e.

**Line 11f. Investment management fees.**

Enter amounts for investment counseling and portfolio management. Monthly account service fees are considered portfolio management expenses, and must be reported here. Don't include transaction costs such as brokerage fees and commissions, which are considered sales expenses and are included on Part VIII, line 7b.

**Line 11g. Other fees for services.**

Enter amounts for other **independent contractor** services not listed on lines 11a through 11f. For example, amounts paid to an independent contractor for advocacy services that don't constitute lobbying should be reported here. For health care organizations, payments to health care professionals who are independent contractors are reported on line 11g. Report on line 11g payments to payroll agents, common paymasters, and other third parties for services provided by those third parties to the filing organization. Report on lines 5–10, as appropriate, payments that reimburse third parties for compensation to the organization's **officers, directors, trustees, key employees**, or other **employees**. Report payments to contractors for information technology services on line 14, rather than on line 11g.

**Line 12. Advertising and promotion expenses.**

Enter amounts paid for advertising. Include amounts for print and electronic media advertising. Also include Internet site link costs, signage costs, and advertising costs for the organization's in-house fundraising campaigns. Include fees paid to independent contractors for advertising, except for fees paid to **independent contractors** for conducting professional **fundraising** services or campaigns, which are reported on line 11e.

**Line 13. Office expenses.**

Enter amounts for supplies (office, classroom, or other supplies); telephone (cell phones and landlines) and facsimile; postage (overnight delivery, parcel delivery, trucking, and other delivery expenses) and mailing expenses; shipping materials; equipment rental; bank fees and other similar costs. Also include printing costs of a general nature. Printing costs that relate to conferences or conventions must be reported on line 19.

**Line 14. Information technology.**

Enter amounts for information technology, including hardware, software, and support services, such as maintenance, help desk, and other technical support services. Also include expenses for infrastructure support, such as web site design and operations, virus protection and other information security programs and services to keep the organization's web site operational and secured against unauthorized and unwarranted intrusions, and other information technology contractor services. Report payments to information technology employees on lines 5 through 10. Report depreciation/amortization related to information technology on line 22.

**Line 15. Royalties.**

Enter amounts for royalties, license fees, and similar amounts that allow the organization to use intellectual property such as patents and copyrights.

**Line 16. Occupancy.**

Enter amounts for the use of office space or other facilities, including rent; heat, light, power, and other utilities expenses; property insurance; real estate taxes; mortgage interest; and similar occupancy-related expenses. Don't include on line 16 expenses reported as office expenses (such as telephone expenses) on line 13.

Don't net any rental income received from leasing or subletting rented space against the amount reported on line 16 for occupancy expenses. If the tenant's activities are related to the organization's exempt purpose, report rental income as program-service revenue on Part VIII, line 2, and allocable occupancy expenses on line 16. However, if the tenant's activities aren't program-related, report the rental income on Part VIII, line 6a, and related rental expenses on Part VIII, line 6b.

Don't include employee salaries or depreciation as occupancy expenses. These expenses are reported on lines 5 through 7 and 22, respectively.

**Line 17. Travel.**

Enter the total travel expenses, including transportation costs (fares, mileage allowances, and automobile expenses), meals and lodging, and per diem payments. Travel costs include the expenses of purchasing, leasing, operating, and repairing any vehicles owned by the organization and used for the organization's activities. However, if the organization leases vehicles on behalf of its executives or other employees as part of an executive or employee compensation program, the leasing costs are considered employee compensation, and are reported on lines 5 through 7.

**Line 18. Payments of travel or entertainment expenses for any federal, state, or local public officials.**

Enter total amounts for travel or entertainment expenses (including reimbursement for such costs) for any federal, state, or local public officials (as determined under section 4946(c)) and their family members (as determined under section 4946(d)). Report amounts for a particular public official only if aggregate expenditures for the year relating to such official (including family members of such official), exceed \$1,000 for the year.

**Line 19. Conferences, conventions, and meetings.**

Enter the total expenses incurred by the organization in conducting meetings related to its activities. Include such expenses as facility rentals, speakers' fees and expenses, and printed materials. Include the registration fees (but not travel expenses) paid for sending any of the organization's staff to conferences, conventions, and meetings conducted by other organizations. Travel expenses incurred by **officers, directors, and employees** attending such conferences, conventions, and meetings must be reported on line 17.

**Line 20. Interest.**

Enter the total interest expense for the year. Don't include any interest attributable to rental property (reported on Part VIII, line 6b) or any mortgage interest (reported as an occupancy expense on line 16).

**Line 21. Payments to affiliates.**

Enter certain types of payments to organizations affiliated with (closely related to) the filing organization. Include payments to affiliated state or national organizations, purchases from affiliates, expenses for providing goods or services to affiliates, voluntary awards or grants to affiliates and membership dues paid to other organizations.

**Line 22. Depreciation, depletion, and amortization.**

If the organization records depreciation, depletion, amortization, or similar expenses, enter the total on line 22. Include any depreciation or amortization of leasehold improvements and intangible assets. An organization isn't required to use the Modified Accelerated Cost Recovery System (MACRS) to compute depreciation reported on Form 990. For an explanation of acceptable methods for computing depreciation see Pub. 946, How to Depreciate Property. If an amount is reported on this line, the organization is required to maintain books and records to substantiate any amount reported.

**Line 23. Insurance.**

Enter total insurance expenses other than insurance attributable to rental property (reported on Part VIII, line 6b). Don't report on this line payments made by organizations exempt under section 501(c)(8), (9), or (17) to obtain insurance benefits for members. Report those expenses on line 4. Don't report on this line the cost of employment-related benefits such as health insurance, life insurance, or disability insurance provided by the organization to or for its **officers, directors, trustees, key employees, and other employees**. Report the costs for officers, directors, trustees, and key employees on Part IX, line 5; report the costs for other disqualified persons on Part IX, line 6; and report the costs for other employees on Part IX, line 9. Report the costs for members on Part IX, line 4, not in Part IX, line 23. Don't report on this line property or occupancy-related insurance. Report those expenses on line 16.

**Line 24. Other expenses.**

Enter the types and amounts of expenses which were not reported on lines 1 through 23. Include expenses for medical supplies incurred by health care/medical organizations. Include payments by the organization to professional fundraisers of fundraising expenses such as printing, paper, envelopes, postage, mailing list rental, and equipment rental, if the organization is able to distinguish these expense amounts from fees for professional fundraising services reportable on line 11e. Enter the four largest dollar amounts on lines 24a through 24d and the total of all remaining, miscellaneous expenses on line 24e. Don't include a separate entry for "miscellaneous expenses," "program expenses," "other expenses," or a similar general category in lines 24a–d. If the amount on line 24e exceeds 10% of the amount on line 25, column (A), the organization must list the type and amount of each line 24e expense on Schedule O (Form 990 or 990-EZ).

**Line 25. Total functional expenses. Section 501(c)(3) and 501(c)(4) organizations:**

Add lines 1 through 24e and enter the totals on line 25 in columns (A), (B), (C), and (D).

**Line 26. Joint costs.**

Organizations that included in program service expenses (column (B) of Part IX) any joint costs from a combined educational campaign and fundraising solicitation must disclose how the total joint costs of all such combined activities were allocated in Part IX between education and fundraising. For instance, if the organization spent \$100,000 on joint costs and allocated 10% to education, it would report \$100,000 in line 26, column (A), \$10,000 in column (B), and \$90,000 in column (D). Any costs reported here aren't to be deducted from the other lines in Part IX on which they are reported. Don't check the box unless the organization followed SOP 98-2 (ASC 958-720) in allocating such costs.

An organization conducts a combined educational campaign and fundraising solicitation when it solicits **contributions** (by mail, telephone, broadcast media, or any other means) and includes, with the solicitation, educational material or other information that furthers a bona fide non-fundraising exempt purpose of the organization.

Expenses attributable to providing information regarding the organization itself, its use of past contributions, or its planned use of contributions received, are fundraising expenses and must be reported in column (D). Don't report such expenses as program service expenses in column (B).

Any method of allocating joint costs between columns (B) and (D) must be reasonable under the facts and circumstances of each case. Most states with reporting requirements for charitable organizations and other organizations that solicit contributions either require or allow reporting of joint costs under AICPA Statement of Position 98-2 (SOP 98-2), *Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Governmental Entities that Include Fundraising*, now codified in FASB Accounting Standards Codification 958-720, Not-for-Profit Entities-Other Expenses (ASC 958-720).