



# Technical Advisory Group Issue Paper

AGENDA ITEM: TAGED16-03  
12 December 2023 – Online Meeting

## Section 24 Part III – Fundraising Costs

Summary	This paper provides TAG members with an updated draft of the authoritative guidance for Section 24 Part III <i>Fundraising Costs</i> . It reflects amendments made as result of members views expressed at the September 2023 meeting.
Purpose/Objective of the paper	At the September 2023 TAG meeting, members were provided with a draft of the authoritative guidance for Section 24 Part III <i>Fundraising Costs</i> . Following discussion at that meeting, the Secretariat has made amendments to the draft guidance. This is primarily to reflect views that while costs related to requesting or obtaining present or future donations, gifts, grants and similar transfers are expected to the most significant category of fundraising costs, it would also be useful for some NPOs to show different categories of fundraising costs included those related to commercial and trading activities and investments. Other more minor amendments provide clarity over the calculation of fundraising costs and disclosures.
Other supporting items	TAGED16-02 <i>Classification of expenses</i>
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Actions for this meeting	<b>Comment and advise on:</b> <ul style="list-style-type: none"><li>• the changes made to the scope of fundraising activities;</li><li>• the calculation if fundraising costs; and</li><li>• disclosure requirements.</li></ul>

# Technical Advisory Group

## Section 24 Part III *Fundraising costs* – Draft authoritative guidance

### 1. Introduction

- 1.1 This paper provides an overview of:
- the changes made to the scope of fundraising activities;
  - the calculation of fundraising costs; and
  - disclosure requirements.

### 2. Background

- 2.1 At the September 2023 TAG meeting, members were provided with an initial draft of authoritative guidance for Section 24 Part III *Fundraising Costs*. This guidance was based on the proposals in the Consultation Paper, feedback received from respondents, the broader approach to the classification of expenses and the need for specific guidance on this topic.
- 2.2 This draft included proposals for a scope of fundraising activities that would include:
- (i) core costs of fundraising is intended to include such costs as grant application expenses for both successful and unsuccessful bids, marketing and other direct activities to seek donations, and the staging of fundraising events; and
  - (ii) commercial and/or trading activities for the purposes of raising funds.
- 2.3 Investment management activities were, however, excluded from fundraising activities despite these being included in some jurisdictions definitions of fundraising costs and strong support for their inclusion in the focus group. This was because such costs were seen as being more related to good financial management rather than specifically to fundraising activities.
- 2.4 In addition, although charges could be made by an NPO for services or goods that are providing a benefit to the public, it was proposed that these activities would not be included as a fundraising activity as these were related to the core mission of the NPO.
- 2.5 The draft guidance also provided principles for the calculation of fundraising costs and disclosures.

### 3. Categories of fundraising activities

- 3.1 TAG members provided mixed views on the scope of fundraising activities. There was support expressed for a position that the minimum disclosure of information of fundraising costs should be more tightly defined. This could see fundraising activities and disclosure of costs limited only to activities involving requesting or obtaining present or future donations, gifts, grants and similar transfers of cash or non-cash assets from entities or individuals external to the NPO.
- 3.2 Other members, however, noted that information on costs related to commercial and trading activities such as the selling of merchandise that had the purpose of raising funds for the NPOs mission would be useful for users of general purpose financial reports. Likewise it was noted that the disclosure of investment management costs as a category of fundraising costs could in some circumstances also provide useful information.
- 3.3 To reflect these views the categories of fundraising activities that NPOs shall calculate and disclose costs related to have been updated. The updated guidance notes that there are three distinct categories namely:
- (i) Donations, gifts, grants and similar transfers - activities that relate to requesting or obtaining present or future donations, gifts, grants and similar transfers of cash or non-cash assets from entities or individuals external to the NPO.
  - (ii) Commercial and trading - activities where an NPO aims to generate profits from transactions that are on a commercial and trading basis
  - (iii) Investments – activities that relate to the management of investments.
- 3.4 The types of costs that each category of fundraising include have also been updated to reflect TAG member comments, including clarity around the inclusion of application costs. It is proposed that separate disclosure of all three categories (where relevant) is required.

**Question 1:** Do TAG members agree with the amendments made to the scope of fundraising activities to note that there are three distinct categories that NPOs shall calculate and separately disclose? Do TAG members agree that all three categories shall be disclosed?

**Question 2:** Do TAG members have any further comments on the fundraising costs that are included but are not limited to in each category?

### 4. Calculation of fundraising costs

- 4.1 Principles for calculating fundraising costs have been updated to ensure that these have all been included in one place within the Section. Specific guidance has also

been included in relation to commercial and trading activities and investment management activities.

- 4.2 For those expenses that are incurred for more than one purpose, such as raising funds while also raising awareness of the activities of the NPO, the guidance noted that these shall be split between those related to fundraising and those not related to fundraising using INPAGs cost allocation methods where these are material. Where not material the guidance notes that NPOs may utilise a pragmatic exemption and consider all such costs as either relating to fundraising or another activity depending on what is the primary purpose of the activity.

**Question 3:** Do TAG members have any comments on the guidance for the calculation of fundraising costs including the opportunity for NPOs to utilise a pragmatic exemption where activities relate to more than one purpose and splitting the costs between purposes would not result in information that was material to users?

## 5. Disclosures

- 5.1 Disclosure guidance has been updated to note that costs related to each category of fundraising activities shall be disclosed separately unless an individual category is immaterial.
- 5.2 To reflect TAG member comments on what information could be useful to users, guidance has been included to note that an NPO may present an analysis of revenue raised alongside the costs associated with specific activities provided that the costs are still presented gross.
- 5.3 NPOs are also required to provide a narrative description where activities have more than one purpose and costs have been allocated between these purposes and/or the pragmatic exemption has been applied.

**Question 4:** Do TAG members have any comments on the updated guidance related to disclosure requirements?

## 6. Next steps

- 6.1 The proposed guidance will be updated based on TAG member feedback and reshared ahead of finalisation for Exposure Draft 3 along with the Implementation Guidance and Basis for Conclusions. It is proposed that the implementation guidance includes an example for each of the categories of fundraising activities to illustrate



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the types of costs that might be considered fundraising costs. It will also show those costs that wouldn't be considered fundraising costs.

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## Annex A – Draft Authoritative Guidance

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### Section 24 Part III *Fundraising Costs*

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#### Scope of this Section

G24.61 This Part of Section 24 specifies the requirements for calculating and disclosing costs associated with fundraising activities. Whichever classification of expense analysis permissible under Part II of Section 24 is adopted by an NPO, fundraising costs shall be separately calculated and disclosed either in the Statement of Income and Expenses and/or in the notes to the accounts.

#### Fundraising activities

G24.62 Fundraising activities can be one of three distinct categories of activity that an NPO carries out to generate funding that an NPO can then apply to providing services and goods for the benefit of the public, carrying out programme and similar activities in pursuit of the NPO's stated mission or objectives, or to support other activities.

G24.63 These categories are:

- (i) Donations, gifts, grants and similar transfers
- (ii) Commercial and trading
- (iii) Investments

G24.64 Fundraising activities do not cover the development of corporate documents applicable to the whole of an NPO's activities such as business plans or annual reports.

#### ***Donations, gifts, grants and similar transfers***

G24.65 This category of fundraising involves activities relating to requesting or obtaining present or future donations, gifts, grants and similar transfers of cash or non-cash assets from entities or individuals external to the NPO.

G24.66 Fundraising costs in this category include but are not limited to those costs incurred in:

- a) seeking donations, grants and legacies including application costs;
- b) operating membership schemes or social lotteries;
- c) staging events, including performance fees, licence fees and other related costs;
- d) contracting with agents to raise funds on behalf of the NPO;
- e) researching and developing fundraising strategies and plans or prospective donors;
- f) advertising, marketing and direct mail materials, but *not* costs associated with educational material designed to further an NPO's mission.

### ***Commercial and trading***

- G24.67 This category of fundraising includes those activities where an NPO aims to generate profits from transactions that are on a commercial and trading basis for use in achieving the NPO's mission. Fundraising costs in this category include but are not limited to those costs incurred in:
- a) operating a trading outlet to sell donated and/or bought-in goods; and
  - b) operating a trading company undertaking other commercial or trading activities.
- G24.68 Where a charge is made to partially cover the costs of services or goods provided to those intended to direct benefit from the NPOs activities, and those charges are part of the operating model established to meet an NPO's mission or objectives, the costs of those activities are not fundraising costs.

### ***Investments***

- G24.69 Where an NPO has investments, investment management activities is a category of fundraising costs. Fundraising costs in the investments category include but are not limited to those costs incurred in:
- a) portfolio management
  - b) obtaining investment advice
  - c) administration of the investments
  - d) costs of licensing intellectual property; and
  - e) (for property) rent collection, property repairs and maintenance charges.

### **Calculating fundraising costs**

- G24.70 In many cases, fundraising costs will need to be calculated by attributing direct, shared and support costs to fundraising activities to determine the full cost of those activities. In attributing costs to fundraising, NPO shall apply the general principles in G24.48
- G24.71 In accordance with G24.48, NPOs shall select methods of cost allocation that ensure that the financial reports present the costs of fundraising activities fairly. Different methods may be appropriate depending on the type of fundraising activity.
- G24.72 NPOs shall ensure that the methods of allocating and aggregating costs attributed to fundraising activities are reasonable and consistently applied and consistent between reporting periods unless circumstances change.
- G24.73 Where an NPO has the commercial and trading activities outlined in G24.67, fundraising costs should include all costs to sell donated or commercial products including direct production costs, shared production costs and support costs.
- G24.74 Where an NPO has investments and investment managers deduct management fees from investment income, the NPO should report the gross investment income, before

fees and then report the management fees charged as a cost. Investment management costs specific to a fund with restrictions should be charged to that specific fund in accordance with the requirements of Section 36 *Fund Accounting*.

### ***Activities that have more than one purpose***

- G24.75 Where an NPO has expenses that have been incurred for more than one purpose, such as raising funds while also raising awareness of the activities of the NPO, they shall be split between those related to fundraising and those that are not related to fundraising using the cost allocation methods in G24.47 if material.
- G24.76 Where not material NPOs may utilise a pragmatic exemption and consider all such costs as either relating to fundraising or another activity depending on what is the primary purpose of the activity.

### **Disclosures**

- G24.77 Costs related to each category of fundraising activities shall be disclosed separately unless an individual category is immaterial.
- G24.78 An NPO shall present fundraising costs in each category gross. Cost must not be netted off from the income they have assisted in generating. This follows the general INPAG requirement to account for transactions gross except where explicitly permitted. Where an NPO deems that users of the general purpose financial reports would find the information useful, it may present an analysis of revenue raised alongside the costs associated with specific activities provided that the costs are presented gross.
- G24.79 An NPO shall provide a narrative description of the method of cost allocation and bases of apportionment adopted to calculate fundraising costs. Where activities have more than one purpose, an NPO shall provide a narrative description of these activities including whether costs have been allocated between more than one purpose and/or the pragmatic exemption has been applied.