

Overhead Cost Definitions



What is overhead?

Classifying expenses accurately is not arbitrary guesswork. Both the IRS and FASB (Financial Accounting Standards Board) have definitions for these functional expense classifications. It's important to note that every nonprofit needs to use their own judgment and make some estimates, and that the two sets of definitions are not always consistent with each other.

From IRS: Instructions to the 990

Management & General

Expenses for overall function and management, rather than for the direct conduct of fundraising activities or program services. Overall management usually includes the salaries and expenses of the chief officer of the organization and that officer's staff, except the time they spend supervising (or performing) fundraising activities or program services. Other expenses include those for:

- Meetings of the board of directors
- Committee and staff meetings (unless held in connection with specific program or fundraising activities)
- General legal services
- Accounting (including patient accounting and billing)
- General liability insurance, office management, audit, personnel, other centralized services
- Publication and distribution of an annual report
- Investment expenses

Fundraising

Fundraising expenses are incurred in soliciting contributions, gifts, grants, etc. Include all expenses including allocable overhead costs. Fundraising activities include:

- Publicizing and conducting fundraising campaigns
- Preparing and distributing fundraising materials
- Soliciting bequests and grants
- Soliciting government grants that are reportable as contributions (rather than government funds that are a payment for services)
- Participating in federated fundraising campaigns

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From Financial Accounting Standards Board: FASB 117

To help donors, creditors, and others in assessing an organization's service efforts, including the costs of its services and how it uses resources, financial statements shall provide information about expenses reported by their functional classification such as major classes of program services and supporting activities.

Management & General

Activities that are not identifiable with a single program, fundraising, or membership development activity, but are indispensable to the conduct of these activities and to the organization's existence. These expenses include:

- Oversight and business management, which usually includes expenses and salaries of the board, CEO and supporting staff (except the portion that is spent directly supervising programs, fundraising, or membership), costs of disseminating information to the public about stewardship of funds, announcements about appointments, and annual report
- General record keeping, budgeting, and finance
- Cost of soliciting revenue from exchange transactions such as government contracts and the sale of the organization's goods and services
- All management and administration, except for direct conduct of program activities or fundraising

Fundraising

Expenses incurred by fundraising activities, which include:

- Publicizing and conducting fundraising campaigns
- Maintaining donor mailing lists
- Conducting special fundraising events
- Preparing and distributing fundraising materials
- All other activities involved with soliciting contributions from individuals, foundations, government, and others, including the costs of soliciting contributions of services from individuals (i.e. volunteers) even though the value of those volunteer services is not recognized as income under FASB