

## Breaking Out Program Expenses

Generally Accepted Accounting Principles (GAAP) require the presentation of a “Statement of Functional Expenses” which breaks out an institution’s expenses into broad functional expense categories - exemplified by the columns of Form 990, Part IX: Program service expenses; Management and general expenses; Fundraising expenses.

In a simplified sense, “Program Expenses” could be reported in a single column/category in the audit report. For our-sized colleges, this one-column presentation might answer. However, for many Bible Colleges and Seminaries, program services would be better shown by breaking out – or expanding – the program category into more than one “column.”

As mentioned in our 2025 XII article on “Functional Expense Allocations,” Program service expenses are mainly those activities that further the organization's exempt purposes. Fundraising expenses shouldn't be reported as program service expenses even though one of the organization's purposes is to solicit contributions. Include lobbying expenses in this column if the lobbying is directly related to the organization's exempt purposes.

Program services can also include the organization's unrelated trade or business activities. Publishing a magazine is a program service even though the magazine contains both editorials and articles that further the organization's exempt purpose as well as advertising, the income from which is taxable as unrelated business income. Also 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. Don't 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).

In Accounting, professional standards require that program services be presented as activities (major classes of programs) that result in goods and services provided to accomplish the purposes or mission of the NFP. For example, universities and colleges have programs for student instruction, research, student services, auxiliary and supporting services (institutional support, academic support and physical plant operations). Therefore, program services should be itemized in a way to show the major program activities for the colleges and universities in accordance with professional standards and best practices for the industry.

One consideration in these conversations might be the difficulty or cost benefit of going through the process of breaking out/down Program expenses. In our 2025 survey, we asked 30 smaller Bible Colleges and Seminaries “With respect to the Statement of Functional Expenses, how difficult might it be for your finance team to break out Program Services into columns for Instruction, Auxiliary, and Student Services?” With the range being: 0 = Very easy, 10= Very Difficult. The average of the 30 responses was 4.07 (which we would classify

as “moderate”) and the range was from 0 to 8. Thus, for most schools, the process should not be too daunting.

The Finance Teams of Bible Colleges and Seminaries should prepare their financial statements under the direction of the Board Of Directors and their Chief Financial Officer. Such financials and disclosures should be presented based on professional standards and the industry standards and practices. Therefore, these colleges should discuss - in detail - with their auditors the professional standards and the requirements as appropriate. As part of this discussion, we should carefully review the National Association of College and University Business Officers (NACUBO) model for presenting such financial statements.

To “go all technical” in FASB-speak, codification section 958-720-45-3 defines Program services 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 NFP exists. Those services are the major purpose for and the major output of the NFP and often relate to several major programs. For example, a large university may have programs for student instruction, research, and patient care, among others. Similarly, a health and welfare entity may have programs for health or family services, research, disaster relief, and public education, among others. A federated fundraising entity's programs may include making contributions to NFPs supported by the federated fundraising entity. Paragraphs 280-10-50-1 through 50-19, although not required of NFPs, may be helpful in determining what constitutes major classes of programs and supporting activities.”

While we do not believe that financial statements which show all Program service expenses in one column are “nonconforming in all material respects” for our-sized institutions, it is a good time to converse about “breaking out” Program expenses.