

## Chapter 21

# SELECTED AREAS OF COST

## Chapter 21 – Dues, Membership Fees and Subscription Costs

### Authoritative Sources

[FAR 31.205-43](#) Trade, Business, Technical, and Professional Activity Costs

This section provides basic guidance in reviewing dues, memberships, and subscription costs. Additional guidance is provided on costs of memberships in industrial liaison programs of universities, the Army, Navy, and Air Force associations, and organizations engaged in lobbying or charitable activities.

This chapter addresses the following topics:

- 21-1 General
- 21-2 Army, Navy, and Air Force Associations
- 21-3 Costs of Memberships in Industrial Liaison Programs of Universities
- 21-4 Costs of Memberships Fees in Organizations Engaged in Lobbying or Charitable Activities
- 21-5 Costs of Political Campaign Activities at Contractor Facilities
- 21-6 Contributions Claimed as Dues or Subscriptions

### 21-1 General

Generally, costs of memberships in trade, business, technical, and professional organizations are allowable per FAR 31.205-43(a) but see 20-2, 20-3, 20-4, and 20-6 below for special considerations.

Subscription costs include trade, business, professional, or technical periodicals. Such costs are generally allowable per FAR 31.205-43(b).

### 21-2 Army, Navy, and Air Force Associations

The Association of the United States Army, Army Aviation Association of America, Navy League of the United States, Air Force Association, and other nonprofit associations with similar objectives have for many years offered memberships to contractors. These associations are primarily concerned with fostering and preserving the images and efficiencies of the Army, Navy, and Air Force. They operate outside Government channels in an endeavor to preserve a spirit of fellowship among former and present Service members and to inform and arouse the interests of the public in activities and achievements of their respective military services. Generally, memberships are offered to

## Chapter 21

contractors that wish to support the objectives of these associations. The membership dues often include a subscription to publications issued periodically. For example, the Association of the United States Army monthly publishes a magazine entitled ARMY. It includes numerous articles primarily designed to enhance Army personnel programs and to promote manpower and combat readiness. In addition, conventions and meetings are periodically held by these associations, at which contractors frequently exhibit their products. Occasionally, these conventions or meetings will be sponsored by a contractor or group of contractors. These conventions or meetings are usually held to focus the attention of the public on the activities of a particular military service that contribute to national defense programs. In determining the allowability of costs incurred by contractors with these associations, the auditor will be guided by the following:

a. Costs related to these associations such as membership fees, exhibit or display costs, and sponsorship expenses do not qualify as allowable under the trade, business, technical, or professional activity principle in FAR 31.205-43.

b. The costs of travel, registration, hotel, and other expenses incurred in connection with these associations' conventions, meetings, and conferences are considered unallowable in accordance with FAR 31.205-43(c), unless the contractor can show that the primary purpose of the meeting is for "the dissemination of technical information or the stimulation of production." The inference here is that the technical information will benefit performance, or stimulate production, under a particular Government contract, or series of contracts.

### **21-3 Costs of Memberships in Industrial Liaison Programs of Universities**

Industrial liaison programs are offered to contractors by various universities throughout the country. Under such programs, contractors are usually entitled to the use of university facilities, consultations with faculty members, copies of research reports, attendance at symposiums, and possibly other benefits. To become eligible for such benefits, the universities require that contractors pay membership fees. Some universities enter into formal agreements with contractors describing the types of benefits that will be provided.

The membership fee in each industrial liaison program, as further discussed below, should be considered a retainer fee under FAR 31.205-33 and an allowable cost if supported by evidence that:

(1) the services are necessary and customary;

(2) the level of past services justifies the amount; and

(3) the retainer fee is reasonable compared to the cost and level of expertise required to maintain an in-house capability to perform the covered services.

## Chapter 21

Normally, benefits available from membership in an industrial liaison program are the same for all members, regardless of fee paid by each member. Universities usually set a schedule of fees based on company size which is often based on voluntary compliance or negotiation above the minimum fee. Generally, amounts paid in excess of the minimum fee are voluntary and should be disapproved as contributions under FAR 31.205-8, in the absence of evidence to the contrary. However, a larger company or one with a special need may derive more benefits than other industrial liaison program members. In such cases, all or a portion of the amount above the minimum fee may be allowable.

### **21-4 Costs of Membership Fees in Organizations Engaged in Lobbying or Charitable Activities**

The allowability of membership fees, association dues, or the costs of donated time or materials to any organization can normally be determined from the primary mission of the organization receiving the payments or benefits. We believe that all organizations fit three basic categories and that the allowability of associated costs is predicated on the nature and materiality of expenses.

#### **Bona Fide Trade or Professional Organizations**

If an organization is formed for the basic purpose of providing technical services to member contractors and the contractors can demonstrate that such services were actually received, the membership and associated costs are normally allowable, even though the organization may occasionally engage in an immaterial amount of lobbying activities or charitable endeavors.

#### **Trade or Nonprofit Organizations Partially Engaged in Lobbying or Charitable Activities**

The costs of membership or other support activities donated or supplied to organizations which are partially engaged in lobbying or charitable endeavors should be examined in light of their nature, purpose, and materiality. There is no hard and fast rule to apply to these conditions in order to objectively determine the extent of unallowable costs attributed to association with certain organizations. Therefore the following steps should be taken in order to provide reasonable assurances that unallowable contributions or lobbying costs are not billed or claimed by contractors when they are commingled with other allowable costs:

(1) Question any special assessment or separately identified portion of the costs of membership fees or other type costs applicable to lobbying or charitable activities as unallowable.

(2) Notify the contractor that it is responsible for the identification and removal from its claims and proposals of any unallowable activity costs and that it is required to maintain adequate records to demonstrate compliance with applicable cost principles.

## Chapter 21

(3) In the absence of documentation as to the amount of unallowable lobbying or charitable activities performed by such organizations, it may be difficult to question estimated unallowable activities. The auditor should request the contractor to obtain from the organization in question a confirmation letter identifying or estimating the amounts or percentages of lobbying or charitable effort expended by the organization in the accounting year being audited.

### **Organizations Dedicated to Lobbying or Charitable Activities**

When it can be determined that the fees or other type costs associated with membership in these organizations are ultimately expended on lobbying or charitable activities, the costs are to be evaluated for allowability under FAR 31.205-8, or 31.205-22.

### **21-5 Costs of Political Campaign Activities at Contractor Facilities**

Costs associated with political campaign activities, such as candidates' appearances and speeches at contractor facilities, are unallowable in accordance with FAR 31.205-22(a)(1), Legislative Lobbying Costs, when such activities are clearly an attempt by the contractor to influence the outcome of an election by soliciting votes. The key considerations in this determination are how the candidate is portrayed by the contractor and the subject matter of the candidate's speech. When questioning such an event all costs associated with these activities including applicable burdens should be questioned.

### **21-6 Contributions Claimed as Dues or Subscriptions**

When auditing dues and subscription accounts auditors should be alert for any contributions paid separately or included as part of the billing. Professional organizations often include a suggested voluntary contribution as part of the membership dues. If the contractor receives something in return for the contribution (e.g., professional publications) it is the contractor's responsibility to establish the value of the product or service received. The value of goods or services received is not a contribution; it is a purchase. The amount in excess of the value established is an expressly unallowable contribution under FAR 31.205-8.