

StrengthMatters 2018 Annual Meeting

Functional Expense Reporting: Workshop on Expense Allocations and New Disclosure Requirements

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ASU 2016-14 Presentation of Financial Statements of Not-for-Profit Entities (NPOs) Requirements for Reporting Expenses

- All NFPs, including Voluntary Health and Welfare Entities, must present an analysis of expenses by function and nature in one location. Either
 - Present a separate statement of functional expenses, or
 - Present a table in the notes, or
 - Incorporate into the statement of activities
- Include a description of the method(s) used to allocate costs among program and support functions
- The ASU includes improved and expanded guidance about management & general expenses



[All NFPs are required to report information about expenses in one location, either on the face of the statement of activities, as a schedule in the notes to the financial statements, or as a separate financial statement. Presenting this information as supplementary information does not meet the requirement.]

Save Our Charities

Consolidated Statement of Functional Expenses

Year Ended December 31, 20X1

	Program Services			Management and General	Fundraising and Development	Cost of Goods Sold	Total
	Advisory	Training	Total				
Grants and other assistance	\$ 294,261	\$ -	\$ 294,261	\$ -	\$ -	\$ -	\$ 294,261
Salaries and wages	6,769,754	1,061,585	7,831,339	370,234	254,176	-	8,455,749
Employee benefits	1,398,503	310,865	1,709,368	99,963	26,222	-	1,835,553
Payroll taxes	541,580	84,927	626,507	29,619	19,823	-	675,949
Professional services	1,306,807	87,197	1,394,004	12,780	1,704	-	1,408,488
Accounting fees	-	-	-	40,073	-	-	40,073
Legal fees	-	7,939	7,939	-	-	-	7,939
Advertising and promotion	33,085	21,006	54,091	79,261	132,478	-	265,830
Office expenses	87,071	56,654	143,725	9,867	22,794	-	176,386
Information technology	37,858	606,535	644,393	12,399	14,653	-	671,445
Occupancy	446,601	29,799	476,400	14,918	55,427	-	546,745
Travel	170,957	18,283	189,240	149,292	-	-	338,532
Conferences, conventions and meetings	32,516	66,287	98,803	11,505	-	-	110,308
Interest	387,428	-	387,428	-	9,457	-	396,885
Insurance	198,174	12,556	210,730	5,443	1,022	-	217,195
Training and development	457,617	20,659	478,276	9,113	33,669	-	521,058
Gift shop cost of goods sold	59,621	-	59,621	-	-	-	59,621
Cost of direct benefits to donors	-	-	-	-	-	12,601	12,601
Depreciation and amortization	1,147,186	74,425	1,221,611	20,112	13,960	-	1,255,683
Bad debt expense	-	-	-	16,892	-	-	16,892
Other	31,569	5,977	37,546	2,122	7,474	-	47,142
Total expenses by function	13,400,588	2,464,694	15,865,282	883,593	592,859	12,601	17,354,335
Less expenses included with revenues on the statement of activities							
Gift shop cost of goods sold	(59,621)	-	(59,621)	-	-	-	(59,621)
Cost of direct benefits to donors	-	-	-	-	-	(12,601)	(12,601)
Total expenses included in the expense section on the statement of activities	\$ 13,340,967	\$ 2,464,694	\$ 15,805,661	\$ 883,593	\$ 592,859	\$ -	\$ 17,282,113

Option to Present on Statement of Activities

Expenses:	
Grant activities -	
Grants	12,125
Salaries, benefits and taxes	1,808
Occupancy costs	970
Depreciation	845
Supplies	1,255
Other	56
	<hr/>
	17,059
Management and general -	
Salaries, benefits and taxes	452
Occupancy costs	243
Depreciation	211
Supplies	314
Other	14
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	1,234
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Total expenses	18,293



Description of Allocation Methods

Reporting of Expenses by Nature and Function

1) All NFP's shall report information about all expenses (by nature and function) in one location - on the face of the statement of activities, as a schedule in the notes to the financial statements, or in a separate financial statement.

a) Has your organization decided where to present all expenses by nature and function?

2) The relationship between functional and natural classification for all expenses shall be presented in an analysis that disaggregates functional expense classifications, such as major classes of program services and supporting activities by their natural expense classifications, such as salaries, rent, electricity, supplies, depreciation, awards and grants to others, and professional fees.

a) Does your organization track expenses by both natural and functional classifications?

b) Does your organization have a written policy or methodology as to how expenses are classified into functional expense categories including consideration for any needed allocations?

Allocations

Activities that represent direct conduct or direct supervision of program or other supporting activities would require allocation from management and general activities. Additionally, certain costs benefit more than one function and, therefore, shall be allocated. For example, information technology generally can be identified as benefitting various functions, such as accounting and financial reporting, human resources, fundraising, and program delivery.

Information technology costs generally would therefore be allocated among the functions receiving direct benefit.

Table Illustration and Allocation Description

Example Note 1: Functional Expenses

The table below presents expenses by both their nature and function for fiscal year 20XX.

	Program Activities				Supporting Activities			Total Expenses
	A	B	C	Programs	Management and General	Fund-Raising	Supporting	
Salaries and benefits	\$ 7,400	\$ 3,900	\$ 1,725	\$ 13,025	\$ 1,130	\$ 960	\$ 2,090	\$ 15,115
Grants to other organizations	2,075	750	1,925	4,750	-	-	-	4,750
Supplies and travel	865	1000	490	2,355	240	560	800	3,155
Services and professional fees	160	1490	600	2,250	200	390	590	2,840
Office and occupancy	1,160	600	450	2,210	218	100	318	2,528
Depreciation	1,440	800	570	2,810	250	140	390	3,200
Interest	196	109	77	382	0	0	-	382
Total expenses	\$ 13,296	\$ 8,649	\$ 5,837	\$ 27,782	\$ 2,038	\$2,150	\$ 4,188	\$ 31,970

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, interest, and office and occupancy, which are both allocated on a square footage basis, as well as salaries and benefits which are allocated on the basis of estimates of time and effort.

Decisions

How many programs to display?

Usually between one and ten programs are identified which are typically part of the organization's tax-exempt mission

For example, affordable housing development, property management, affordable lending, single-family home sales, Homebuyer counseling, etc.



Decisions

Who performs direct conduct or direct supervision?

Direct conduct personnel work directly with beneficiaries of programs or perform the direct program work

Direct supervisors oversee the work of direct conduct personnel as their immediate supervisor

For example, project managers, property managers, lending officers, Homebuyer counselors, and their direct supervisors



Decisions

How to allocate costs between program, M&G and fundraising

For example, salaries and related costs based on time spent; rent and utilities based on square footage; many direct costs don't need allocation

Not all costs funded by grants are program expenses since many grants also fund indirect and G&A costs



Case Studies - Allocations

Case Study A: CEO Allocation

The broad responsibilities of a CEP generally include administrative and programmatic oversight. At NFP A, the CEO spends a portion of time directly overseeing the research program. Additionally, a portion of time is spent with current and potential donors on fundraising cultivation activities. A portion of the CEO's compensation and benefits and other expenses would be allocated to the research program and to the fundraising function representing the portion of time spent on those activities because they reflect direct conduct or direct supervision. If the remainder of the CEO's time is spent indirectly supervising the other areas of NFP A, including the administrative areas, those activities would not constitute direct conduct or direct supervision, and the ratable portion of compensation and benefit amounts would remain in management and general activities.

Case Study B: CFO Allocation

The CFO at NFP B has primary responsibility for (a) accounting and reporting, (b) short-term budgeting and long-term financial planning, (c) cash management, and (d) direct oversight of the NFP's endowment. A portion of the CFO's compensation and benefits and other expenses would be allocated to management and general activities for the accounting and reporting, short-term budgeting and long-term financial planning, and cash management functions because they benefit the overall organization. A portion would also be allocated to investment expenses for management of the investment strategy of the endowment and would be netted against investment return. However, any portion of time spent supervising the accounting for investments or other fiduciary oversight would not be allocated to investment expenses because that time is related to an accounting and general management activity that benefits the overall organization and should be allocated to management and general activities.



Case Studies - Allocations

Case Study C: Human Resources Department Allocation

The human resources department at NFP C generally is involved in the recruitment of all personnel of the NFP. If NFP C hired an employee to work in Program A, the human resources department's related costs would not be allocated to that program. Rather, those costs would remain a component of management and general activities, because the human resources department's efforts to hire an employee for a particular function are not deemed to be direct conduct or direct supervision of programmatic activity.

Case Study D: Grant Accounting and Reporting Allocation

NFP D receives federal grants and employs an accountant who is responsible for grant accounting and reporting. In some cases, under the terms of the grant agreement, a fiscal report is required to be filed that details expenses incurred and charged against the grant. The fiscal report is not part of the direct conduct or direct supervision of the grant but rather is an accounting function. Therefore, the grant accountant's compensation and benefits would not be allocated to the programmatic area. However, a scientific report prepared by a principal investigator who is responsible for the research activity would be indicative of direct conduct and/or direct supervision of the grant activity, and the principal investigator's compensation and benefits would be allocated to the grant.



Joint Costs - Allocations

Costs that include a fundraising appeal are more difficult to allocate

Does the joint cost (newsletter, special event, brochures, informational letters, etc.) include any request for support?

If so, either allocate the entire cost to fundraising, or determine if the joint cost meets the purpose criterion, the audience criterion and the content criterion in order to allocate some portion of the cost to program or M&G.



Joint Costs - Allocations

Purpose criterion:

Compensation or fees test – cannot be based on a % of contributions generated, and either

Separate and similar activities test – the activity is similar to ones that have been conducted without a fundraising appeal, or

Other evidence test – the activity accomplishes a program or M&G function

Audience criterion: If the audience was selected because it includes prior donors, the entire cost becomes fundraising

Content criterion: Must include a “call to action” since education about an issue is considered fundraising



Group Exercise

Step One:

Identify the different programs that your organization will identify as separate columns on your statement of functional expenses

Step Two:

Determine how each major line item of expenses would best be allocated to each program, M&G or fundraising functions.



Sample Disclosure

3) A description of the methods used to allocate costs among program and support functions shall be disclosed in the notes to financial statements.

a) Does your organization have a formal policy documenting the basis for allocations of expenses to support the required note disclosure?

Example Note 2: Functional Expenses

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Organization. Those expenses include depreciation and amortization, the president's office, communications department, and information technology department. Depreciation is allocated based on a square footage basis, the president's office is allocated based on estimates of time and effort, certain costs of the communications department are allocated based on the benefit received, and the information technology department is allocated based on estimates of time and costs of specific technology utilized.



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