

The webcast will start at 1 p.m. Eastern

Please note:

- **Handout** – You can print or download the webcast handout at [www.capincrouse.com/functional-expenses](http://www.capincrouse.com/functional-expenses)
- **CPE** – CPE certificates will be emailed to you within the next few weeks
- **Audio** – A recording of today's webcast will be available at [www.capincrouse.com/functional-expenses](http://www.capincrouse.com/functional-expenses)



## Functional Expense Accounting

Dave Moja, Partner  
4.28.16



## Reporting of Expenses

**Expense by nature and function → one place in the F/S**  
 (statement of activities, separate statement, or schedule in notes)

N A T U R E	FUNCTION				Not-functionalized
	Program Activities	Supporting Activities	Total Operating Expenses	Non-Operating	
	Program A	Program B	M&G	Fundraising	
Salaries & Benefits					
Grants to Others					
Equipment Rental & Maintenance					
Occupancy Cost					
Depreciation					
Information Technology					
Professional Service Fees					
Supplies					
Travel					
Printing & Publication					
Interest					
Other					
<b>Total</b>					

\*Either nature or function (or both) on face of Statement of Activities

## Cost Allocation Note Disclosures

- Required to include a description of the method used to allocate costs among program and support functions
- Board will refine the definition of and guidance for *management and general activities*

**Other:** Business-oriented NFP health care entities no longer have to disclose their tax-exempt status in accordance with paragraph 954-740-50-1

## FASB 117

- Program Service Expenses – mainly those activities that further the organization's exempt purposes (includes expenses to carry out Program Services in Part III)
- Management and General Expenses – overall operations and business management, oversight, record keeping, budgeting, finance, management of investments, and any other management or administrative functions
- Fundraising Expenses – incurred in soliciting contributions, gifts, and grants

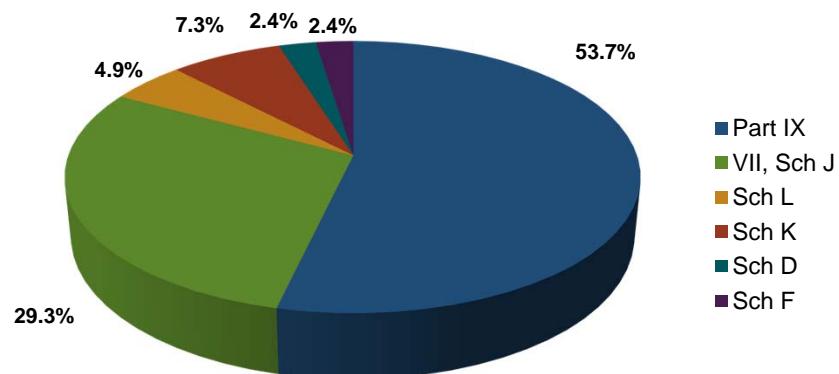
## Considerations for Auditing Functional Expenses

- Review information that is available on the organization's website regarding the organization's mission, programs, operations, and fundraising philosophy.
- Obtain an organizational chart and consider the organizational structure, lines of authority, and activities conducted by the employees of the entity.
- Tour all major facilities, and observe activities that are conducted in each facility.
- Talk to employees other than those in the finance office about the organization's operations and programs, such as the development director and program director.

## Considerations for Auditing Functional Expenses (continued)

- Review the organization's strategic plan and consider how changes will affect the allocation of resources.
- Read the minutes of meetings of the governing board and key operating committees.
- Attend the organization's major fundraising events.

## Email Survey: "Biggest Pain" Form 990 Section/Part?





## Form 990, Part IX



### Program Expenses

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- Program services are mainly those activities that further the organization's exempt purposes. Fundraising expenses should not be reported as program-service expenses even though one of the organization's purposes is to solicit contributions.

## Program Expenses

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- 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.

## Management & General Expenses

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- Use Column (C) to report expenses that relate to the organization's overall operations and management. Include salaries and expenses of the Chief Executive Officer and their staff, unless a part of their time is spent directly supervising program services or fundraising activities. In that case, their salaries and expenses should be allocated among management, fundraising, and program services.

## Management & General Expenses

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- Organizations must also report the following in Column (C): costs of board of directors meetings, committee meetings, and staff meetings (unless they involve specific program services or **fundraising activities**); general legal services; accounting (including patient accounting and billing); general liability insurance; office management; auditing, human resources, and other centralized services; preparation, publication, and distribution of an annual report; and management of investments.

## Fundraising Expenses

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- Report as Fundraising all expenses, including allocable overhead costs incurred in: (a) publicizing and conducting fundraising campaigns; and (b) soliciting bequests and grants from foundations or other organizations, or governmental grants reportable in Line 1 of Part VIII.

## Fundraising Expenses (continued)

- This includes expenses incurred in participating in federated fundraising campaigns; preparing and distributing fundraising manuals, instructions, and other materials; and preparing to solicit or receive contributions. Report direct expenses of fundraising events in Part VIII, Line 8b, rather than in Part IX, Column (D). However, report indirect expenses of fundraising events, such as certain advertising expenses, in Part IX, Column (D) rather than in Part VIII, Line 8b.

Form 990 (2018) Part IX - Statement of Functional Expenses Section 501(c)(3) and 501(c)(4) organizations must complete all columns. All other organizations must complete column (A). Check if Schedule O contains a response or note to any line in this Part IX					Page 10
	Total expenses	Program services	Management and general expenses	Fundraising expenses	
1 Grants and other assistance to domestic organizations and domestic governments. See Part X, line 21 . . . . .					
2 Grants and other assistance to foreign governments and individuals. See Part IV, line 22 . . . . .					
3 Grants and other assistance to foreign organizations, foreign governments, and foreign individuals. See Part IV, line 18 . . . . .					
4 Benefits paid to or for members . . . . .					
5 Compensation of current officers, directors, trustees, and key employees . . . . .					
6 Compensation of former officers, directors, trustees, and key employees (as defined under section 4960(f)) and persons described in section 4955(j)(3)(B) . . . . .					
7 Other salaries and wages . . . . .					
8 Fringe benefits, except wages and employer contributions (include section 401(e) and 403(b) employer contributions) . . . . .					
9 Other employee benefits . . . . .					
10 Payroll taxes . . . . .					
11 Employee services for non-employees . . . . .					
a Management . . . . .					
b Legal . . . . .					
c Accounting . . . . .					
d Lobbying . . . . .					
e Professional fundraising services. See Part IV, line 17 . . . . .					
f Investment management fees . . . . .					
g Other (list the amount if 10% or more of the 25, column (A) amount, list the 10% expense on Schedule O) . . . . .					
12 Advertising and promotion . . . . .					
13 Office expenses . . . . .					
14 Business technology . . . . .					
15 Royalties . . . . .					
16 Occupancy . . . . .					
17 Travel . . . . .					
18 Payment of travel and entertainment expenses for any federal, state, or local public officials . . . . .					
19 Conferences, conventions, and meetings . . . . .					
20 Interest . . . . .					
21 Payment to affiliates . . . . .					
22 Depreciation, depletion, and amortization . . . . .					
23 Insurance . . . . .					
24 Other expenses (list expenses not covered above. If the amount exceeds 10% of the 25, column (A) amount, list the 10% expense on Schedule O) . . . . .					
a . . . . .					
b . . . . .					
c . . . . .					
d All other expenses . . . . .					
25 Total functional expenses. Add lines 1 through 24a . . . . .					
26 Joint costs. Complete this line only if the organization is filing a Form 990 and is reporting from a combined educational campaign and fundraising activities. Check here □ if this organization is filing a Form 990-EZ . . . . .					

## Form 990, Part IX, Lines 1-4

1. Grants and other assistance to domestic organizations and domestic governments. See Part IV, Line 21.
2. Grants and other assistance to domestic individuals. See Part IV, Line 22.
3. Grants and other assistance to foreign organizations, foreign governments, and foreign individuals. See Part IV, Lines 15 and 16.
4. Benefits paid to or for members.

## Form 990, Part IX

- Line 5. Compensation of Current Officers, Directors, and Key Employees.
- Enter the total **compensation** paid to current **officers, directors, trustees, and key employees** (as defined in Part VII) for the organization's **tax year**. Compensation includes all forms of income and other benefits earned or received from the filing organization, common paymasters, and payroll/reporting agents in return for services rendered to the filing organization, including compensation reported on Forms W-2 and 1099, pension plan contributions and accruals, and other employee benefits, but does not include non-compensatory expense reimbursements or allowances.

## Form 990, Part IX

- Line 5.
- Report all compensation amounts relating to such an individual, including those related to services performed in a capacity other than as an officer, director, trustee, or key employee.

## Form 990, Part IX, Line 5



- Compensation for Part IX is to be reported based on the accounting method and tax year used by the organization, rather than the definitions and calendar year used to complete Part VII or Schedule J regarding compensation of certain officers, directors, trustees, and other employees.

## Form 990, Part IX

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- Line 5, EXAMPLE 1
- Key employee A spent 90% of her time administering a program that constitutes the basis of the organization's exempt purpose and 10% of her time in the general management of the organization itself.
- Allocate 90% of key employee A's compensation to Column (B), Program service expenses, and 10% to Column (C), Management and general expenses.

## Form 990, Part IX

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- Line 5, EXAMPLE 2
- Director B is not paid as a member of the board, but is employed and compensated by the organization as a part-time fundraiser.
- Allocate 100% of Director B's compensation to Column (D), fundraising.

## Form 990, Part IX

- Line 5, EXAMPLE 3
- Key Employee C receives \$100,000 of salaries and wages. In addition, the organization paid \$25,000 of fringe benefits, \$10,000 of non-compensatory travel reimbursements, and \$7,500 of pension plan contributions relating to C.
- The organization reports \$132,500 as compensation on Line 5 and reports the \$10,000 of expense reimbursements on Line 17.

## Form 990, Part IX

- Line 6. Compensation, Not Included Above, to Disqualified Persons
- Sections 501(c)(3), 501(c)(4) and 501(c)(29) organizations must report the total compensation and other distributions provided to disqualified persons and persons described in section 4958(c)(3)(B) to the extent not included on Line 5.

## Form 990, Part IX

- Line 6. Compensation, Not Included Above, to Disqualified Persons
- Compensation includes all forms of income and other benefits earned or received from the filing organization, common paymasters, and payroll/reporting agents in return for services rendered to the filing organization, including compensation reported on Forms W-2 and 1099, pension plan contributions and accruals, and other employee benefits, but does not include non-compensatory expense reimbursements or allowances.

## Form 990, Part IX

- Line 7. Other Salaries and Wages.
- Enter the total amount of employee salaries, wages, fees, bonuses, severance payments, and similar amounts from the filing organization, common paymasters, and payroll/reporting agents in return for services rendered to the filing organization that are not reported on Lines 5 or 6.
- REMEMBER: Wages on Part IX do not match the W-2 for an organization with a non-calendar year-end.

## Form 990, Part IX

- Line 8. Pension Plan Contributions.
- Enter the employer's share of contributions to qualified and nonqualified pension plans for the year. The organization should include contributions made to 401(k) and 403(b) pension plans on behalf of employees. However, it should not include contributions to qualified pension, profit-sharing, and stock bonus plans under section 401(a) solely for the benefit of current or former officers, directors, trustees, or key employees that are reportable on Lines 5 or 6.

## Form 990, Part IX

- Line 9. Other Employee Benefits.
- Enter contributions by the filing organization, common paymasters, and payroll/reporting agents in return for services rendered to the filing organization to the filing organization's employee benefit programs (such as insurance, health, and welfare programs that are not an incidental part of a pension plan included on Line 8), and the cost of other employee benefits.

## Form 990, Part IX

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- Line 9. Other Employee Benefits.
- For example, report expenses for employee events such as a picnic or holiday party on Line 9. Do not include contributions on behalf of current or former officers, directors, trustees, key employees, or other persons that were included on Lines 5 or 6.

## Form 990, Part IX

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- Line 10. Payroll Taxes.
- Enter the amount of federal, state, and local payroll taxes for the year but only those taxes that are imposed on the organization as an employer. This includes the employer's share of Social Security and Medicare taxes, the federal unemployment tax (FUTA), state unemployment compensation taxes, and other state and local payroll taxes.
- Do not include on Line 10 taxes withheld from employees' salaries and paid to various governmental units such as federal, state, and local income taxes and the employees' shares of Social Security and Medicare taxes. Such withheld amounts are reported as compensation.

## Form 990, Part IX

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- Line 11. Fees for Services Paid to Non-Employees (Independent Contractors).
- Enter on Lines 11a through 11g amounts for services provided by independent contractors for management, legal, accounting, lobbying, professional fundraising services, investment management, and other services, respectively. Include amounts regardless of whether a Form 1099 was issued to the independent contractor. Do not include on Line 11 amounts paid to or earned by employees for these types of services, which must be reported on Lines 5 through 7.

## Form 990, Part IX

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- Line 11a. Management Fees.
- Enter the total fees charged for management services provided by outside firms and individuals.

## Form 990, Part IX

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- Line 11b. Legal Fees.
- Enter the total legal fees charged by outside firms and individuals.
- Do not include any penalties, fines, settlements, or judgments imposed against the organization as a result of legal proceedings. Report those expenses on Line 24, Other expenses.
- Report any amounts for lobbying services provided by attorneys on Line 11d.

## Form 990, Part IX

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- Line 11c. Accounting Fees.
- Enter the total accounting and auditing fees charged by outside firms and individuals.

## Form 990, Part IX

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- Line 11d. Lobbying Fees.
- Enter amounts for activities intended to influence foreign, national, state, or local legislation, including direct lobbying and grassroots lobbying.
- **\*\*GONE!** [Do not include activities to influence actions by executive, judicial, or administrative officials or bodies, or other advocacy services. Report these amounts on Line 11g.]

## Form 990, Part IX

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- Line 11e. Professional Fundraising Fees.
- Enter amounts paid for **professional fundraising services**, including solicitation campaigns and advice or other consulting services supporting in-house fundraising campaigns. If the organization is able to distinguish between fees paid for professional fundraising services and amounts paid for fundraising expenses such as printing, paper, envelopes, postage, mailing list rental, and equipment rental, then fees paid for...

## Form 990, Part IX

- Line 11e. Professional Fundraising Fees.
- ... professional fundraising services should be reported on Line 11e and amounts paid for fundraising expenses should be reported on Line 24 as other expenses. If the organization is unable to distinguish between these amounts, it should report all such fees and amounts on Line 11e.

## Form 990, Part IX

- Line 11f. Investment Management Fees.
- Enter amounts for investment counseling and portfolio management. Monthly account service fees are considered portfolio management expenses, and must be reported here.
- Do not include transaction costs such as brokerage fees and commissions, which are considered sales expenses and are included on Part VIII, Line 7b.
- (Form 990, Part VIII, Line 3)
- FASB NAC Exposure Draft 4/23/15\*

## Form 990, Part IX

- Line 11g. Other Fees for Services.
- Enter amounts for other independent contractor services not listed on Lines 11a through 11f.
- For example, amounts paid to an independent contractor for advocacy services that do not constitute lobbying should be reported here.
- For health care organizations, payments to health care professionals who are independent contractors are reported on Line 11g.

## Form 990, Part IX

- Line 12. Advertising Expenses.
- Enter amounts paid for advertising. Include amounts for print and electronic media advertising. Also include Internet site link costs, signage costs, and advertising costs for the organization's in-house fundraising campaigns.
- Include fees paid to independent contractors for advertising, except for fees paid to **independent contractors** for conducting professional **fundraising** services or campaigns, which are reported on Line 11e.

## Form 990, Part IX

- Line 13. Office Expenses.
- Enter amounts for supplies (office, classroom, or other supplies); telephone (cell phones and landlines) and facsimile; postage (overnight delivery, parcel delivery, trucking, and other delivery expenses) and mailing expenses; shipping materials; equipment rental; bank fees and other similar costs. Also include printing costs of a general nature.
- Printing costs that relate to conferences or conventions must be reported on Line 19.

## Form 990, Part IX

- Line 14. Information Technology.
- Enter amounts for information technology, including hardware, software, and support services, such as maintenance, help desk, and other technical support services. Also include expenses for infrastructure support, such as web site design and operations, virus protection and other information security programs and services to keep the organization's web site operational and secured against unauthorized...

## Form 990, Part IX

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- Line 14. Information Technology.
- ... and unwarranted intrusions, and other information technology contractor services. Report payments to information technology employees on Lines 5 through 10. Report depreciation/amortization related to information technology on Line 22.

## Form 990, Part IX

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- Line 15. Royalties.
- Enter amounts for royalties, license fees, and similar amounts that allow the organization to use intellectual property such as patents and copyrights.

## Form 990, Part IX

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- Line 16. Occupancy.
- Enter amounts for the use of office space or other facilities, including rent, heat, light, power, and other utilities expenses; property insurance; real estate taxes; mortgage interest; and similar occupancy-related expenses.
- Do not include expenses reportable as office expenses (such as telephone expenses) on Line 13.

## Form 990, Part IX

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- Do not net any rental income received from leasing or subletting rented space against the amount reported on Line 16. If the tenant's activities are related to the organization's exempt purpose, report rental income as program-service revenue on Part VIII, Line 2, and allocable occupancy expenses on Line 16. However, if the tenant's activities are not program-related, report the rental income on Part VIII, Line 6a, and related rental expenses on Part VIII, Line 6b.

## Form 990, Part IX

- Line 17. Travel.
  - Enter the total travel expenses, including transportation costs (fares, mileage allowances, and automobile expenses), meals and lodging, and per diem payments. Travel costs include the expenses of purchasing, leasing, operating, and repairing any vehicles owned by the organization and used for the organization's activities. However, if the organization leases vehicles on behalf of its executives or other employees as part of an executive or employee compensation program, the leasing costs are considered employee compensation, and are reported on Lines 5 through 7.

## Form 990, Part IX

- Line 18. Payments of Travel or Entertainment Expenses for any Federal, State or Local Public Officials.
  - Enter total amounts for travel or entertainment expenses (including reimbursement for such costs) for any federal, state, or local public officials and their family members. Report amounts for a particular public official only if aggregate expenditures for the year relating to such official (including family members of such official) exceed \$1,000 for the year.

## Form 990, Part IX

- Line 18. Payments of... Public Officials.
- For expenditures that are not specifically identifiable to a particular individual, the organization may use any reasonable allocation method to estimate the cost of the expenditure to an individual. Amounts not described above may be included in the reported total amount for Line 18 or may be reported on Line 24, Other expenses. The organization is responsible for keeping records of all travel and entertainment expenses related to a government official regardless of whether reported on Line 18 or 24.

## Form 990, Part IX

- Line 19. Conferences, Conventions, Meetings.
- Enter the total expenses incurred by the organization in conducting meetings related to its activities. Include such expenses as facility rentals, speakers' fees and expenses, and printed materials. Include the registration fees (but not travel expenses) paid for sending any of the organization's staff to conferences, conventions, and meetings conducted by other organizations. Travel expenses incurred by officers, directors, and employees attending such conferences, conventions, and meetings must be reported on Line 17.

## Form 990, Part IX

- Line 23. Insurance.
- Enter total insurance expenses other than insurance attributable to rental property (reported on Part VIII, Line 6b).
- Do not report on this line the cost of employment-related benefits such as health insurance, life insurance, or disability insurance provided by the organization to its officers and employees. Report those expenses on Lines 8 and 9.\*\*
- Do not report on this line property or occupancy-related insurance. Report those on Line 16.

## Form 990, Part IX

- Line 24. Other Expenses.
- Enter the types and amounts of expenses which were not reported on Lines 1 through 23. Include expenses for medical supplies incurred by health care/medical organizations. Include payments by the organization to professional fundraisers of fundraising expenses such as printing, paper, envelopes, postage, mailing list rental, and equipment rental, if the organization is able to distinguish these expense amounts from fees for professional fundraising services...

## Form 990, Part IX

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- Line 24. Other Expenses.
- ...reportable on Line 11e. Enter the four largest dollar amounts on Lines 24a through 24d and the total of all remaining, miscellaneous expenses on Line 24e. Do not include a separate entry for “miscellaneous expenses,” “program expenses,” “other expenses,” or a similar general category in Lines 24a-d. If the amount on Line 24e exceeds 10% of the amount on Line 25, Column (A), the organization must...

## Form 990, Part IX

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- Line 24. Other Expenses.
- ...list the type and amount of each Line 24e expense on Schedule O (Form 990 or 990-EZ).
- The organization must separately report the amount, if any, of **unrelated business income** taxes that it paid or accrued during the **tax year** on Line 24.

## Line 26 - Joint Costs

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- Organizations that included in program service expenses (Column (B) of Part IX) any joint costs from a combined educational campaign and fundraising solicitation must disclose how the total joint costs of all such combined activities were reported in Part IX. Organizations checking the box in Line 26 must furnish the relevant financial data in the spaces provided. Any costs reported here are not to be deducted from the other Lines in Part IX on which they are reported.

## Joint Costs

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- An organization conducts a combined educational campaign and fundraising solicitation when it solicits contributions (by mail, telephone, broadcast media, or any other means) and includes, with the solicitation, educational material or other information that furthers a bona fide non-fundraising exempt purpose of the organization.

## Joint Costs

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- Expenses attributable to providing information regarding the organization itself, its use of past contributions, or its planned use of contributions received are fundraising expenses and must be reported in Column (D). Do not report such expenses as program service expenses in Column (B).

## Joint Costs

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- Any method of allocating joint costs between Columns (B) and (D) must be reasonable under the facts and circumstances of each case. Most states with reporting requirements for charitable organizations and other organizations that solicit contributions either require or allow reporting of joint costs under AICPA Statement of Position 98-2 (SOP 98-2).

## SOP 98-2

- Purpose
  - Program: must require a specific action by the audience that will contribute to accomplishing the mission
  - Benefit the recipient or benefit society
- Audience
  - Rebuttable presumption (prior donors, chosen by givers)
- Content
  - Does content support program? (or M&G)

Thank you.

Dave Moja, Partner

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