

**THE MUSTARD SEED PROJECT
OF KEY PENINSULA**

Reviewed Financial Statements

June 30, 2019 and 2018

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Independent Accountant's Review Report

Board of Directors
The Mustard Seed Project of Key Peninsula
Vaughn, Washington

We have reviewed the accompanying financial statements of The Mustard Seed Project of Key Peninsula (a nonprofit organization) (the "Organization"), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibilities for the Reviewed Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Accountant's Responsibility

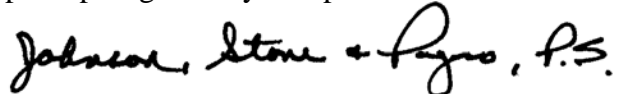
Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Effect of Adopting New Accounting Standard

As discussed in Note 1, the Organization adopted the Financial Accounting Standards Board's Accounting Standards Update ("ASU") 2016-14, *Presentation of Financial Statements of Not-for-profit Entities*, as of and for the years ended June 30, 2019 and 2018. Our conclusion is not modified with respect to this matter.

Accountant's Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Johnson, Stone & Pagano, P.S." in a cursive script.

JOHNSON, STONE & PAGANO, P.S.

September 24, 2019

REVIEWED FINANCIAL STATEMENTS

THE MUSTARD SEED PROJECT OF KEY PENINSULA

STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 149,200	\$ 251,192
Pledges receivable	38,108	83,059
Prepaid expenses	<u>5,329</u>	<u>1,249</u>
Total Current Assets	192,637	335,500
NON-CURRENT ASSETS		
Cash, restricted for capital projects	92,955	1,788
PROPERTY AND EQUIPMENT		
Land	653,000	653,000
Building	306,174	276,715
Equipment and furniture	<u>28,628</u>	<u>13,091</u>
	987,802	942,806
Less accumulated depreciation	<u>33,117</u>	<u>22,227</u>
	954,685	920,579
Construction in progress	<u>936,391</u>	<u>619,997</u>
Total Property and Equipment	<u>1,891,076</u>	<u>1,540,576</u>
TOTAL ASSETS	<u>\$ 2,176,668</u>	<u>\$ 1,877,864</u>

See independent accountant's review report and accompanying notes to financial statements.

THE MUSTARD SEED PROJECT OF KEY PENINSULA

STATEMENTS OF FINANCIAL POSITION (Continued)

June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 206,110	\$ 235,734
Payroll tax liabilities	568	1,856
Tenant security deposits	400	
Current portion of long-term debt, net of debt issuance costs	<u>720,895</u>	<u> </u>
Total Current Liabilities	927,973	237,590
LONG-TERM LIABILITIES		
Long-term debt, net of debt issuance costs	<u> </u>	<u>718,503</u>
Total Liabilities	927,973	956,093
NET ASSETS		
Without donor restrictions	1,117,632	745,768
With donor restrictions	<u>131,063</u>	<u>176,003</u>
Total Net Assets	<u>1,248,695</u>	<u>921,771</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,176,668</u>	<u>\$ 1,877,864</u>

See independent accountant's review report and accompanying notes to financial statements.

THE MUSTARD SEED PROJECT OF KEY PENINSULA

STATEMENTS OF ACTIVITIES

Year Ended June 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES AND SUPPORT			
Donations	\$ 350,414		\$ 350,414
In-kind contributions	24,724		24,724
Special event income, less direct expenses of \$47,002	75,814		75,814
Contract services	17,348		17,348
Grants	222,482		222,482
Rental Income	19,234		19,234
Interest and dividend income	37		37
Net assets released from restriction	44,940	\$ (44,940)	
Total Revenues and Support	<u>754,993</u>	<u>(44,940)</u>	<u>710,053</u>
EXPENSES			
Program services	190,040		190,040
General and administrative	65,241		65,241
Fundraising	127,848		127,848
Total Expenses	<u>383,129</u>		<u>383,129</u>
INCREASE IN NET ASSETS	371,864	(44,940)	326,924
Net Assets at Beginning of Year	<u>745,768</u>	<u>176,003</u>	<u>921,771</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,117,632</u>	<u>\$ 131,063</u>	<u>\$ 1,248,695</u>

See independent accountant's review report and accompanying notes to financial statements.

THE MUSTARD SEED PROJECT OF KEY PENINSULA

STATEMENTS OF ACTIVITIES (Continued)

Year Ended June 30, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES AND SUPPORT			
Donations	\$ 49,413	\$ 406,160	\$ 455,573
In-kind contributions	35,496		35,496
Special event income, less direct expenses of \$41,765	91,158		91,158
Business donations	2,867		2,867
Contract services	17,348		17,348
Grants	163,000		163,000
Interest and dividend income	10,130		10,130
Investment gain	36		36
Net assets released from restriction	<u>384,416</u>	<u>(384,416)</u>	
Total Revenues and Support	753,864	21,744	775,608
EXPENSES			
Program services	221,553		221,553
General and administrative	125,261		125,261
Fundraising	<u>92,401</u>		<u>92,401</u>
Total Expenses	<u>439,215</u>		<u>439,215</u>
INCREASE IN NET ASSETS	314,649	21,744	336,393
Net Assets at Beginning of Year	<u>431,119</u>	<u>154,259</u>	<u>585,378</u>
NET ASSETS AT END OF YEAR	<u>\$ 745,768</u>	<u>\$ 176,003</u>	<u>\$ 921,771</u>

See independent accountant's review report and accompanying notes to financial statements.

THE MUSTARD SEED PROJECT OF KEY PENINSULA

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended June 30, 2019 with Comparative Totals for 2018

	Program Services	General and Administrative	Fundraising	Total Expenses	
				2019	2018
COMPENSATION EXPENSE					
Wages	\$ 99,657	\$ 22,188	\$ 111,453	\$ 233,298	\$ 195,190
Payroll taxes	4,806	1,070	5,375	11,251	13,475
Total Compensation Expense	104,463	23,258	116,828	244,549	208,665
Advertising	3,301			3,301	2,023
Bank service fees	507	305	203	1,015	1,691
Property taxes	3,568	2,498	1,070	7,136	14,453
Computer internet and service	4,913	614	614	6,141	1,015
Dues and subscriptions	520	29	29	578	237
Insurance	4,362	1,091		5,453	6,010
Postage and shipping	1,647	1,648	3,295	6,590	6,838
Professional services	14,824	927	2,780	18,531	47,867
Repairs and maintenance	15,696	872	872	17,440	13,990
Supplies	2,615	560	560	3,735	8,299
Travel and parking	44		11	55	57
Utilities	10,649	592	592	11,833	10,954
Volunteer	712			712	1,489
Capital campaign			57	57	34,394
Other	12,419	261	392	13,072	8,755
Bad debt					8,674
Interest expense		32,041		32,041	56,165
Total Expenses Before Depreciation	180,240	64,696	127,303	372,239	431,576
Depreciation	9,800	545	545	10,890	7,639
TOTAL EXPENSES	\$ 190,040	\$ 65,241	\$ 127,848	\$ 383,129	\$ 439,215

See independent accountant's review report and accompanying notes to financial statements.

THE MUSTARD SEED PROJECT OF KEY PENINSULA

STATEMENTS OF FUNCTIONAL EXPENSES (Continued)

Year Ended June 30, 2018

	Program Services	General and Administrative	Fundraising	Total Expenses
COMPENSATION EXPENSE				
Wages	\$ 115,162	\$ 42,942	\$ 37,086	\$ 195,190
Payroll taxes	<u>7,950</u>	<u>2,965</u>	<u>2,560</u>	<u>13,475</u>
Total Compensation Expense	123,112	45,907	39,646	208,665
Advertising	2,023			2,023
Bank service fees	846	507	338	1,691
Property taxes	7,226	5,059	2,168	14,453
Computer internet and service	811	102	102	1,015
Dues and subscriptions	213	12	12	237
Insurance	4,808	1,202		6,010
Postage and shipping	1,709	1,710	3,419	6,838
Professional services	38,294	2,393	7,180	47,867
Repairs and maintenance	11,864	1,063	1,063	13,990
Supplies	5,809	1,245	1,245	8,299
Travel and parking	46		11	57
Utilities	9,858	548	548	10,954
Volunteer	1,489			1,489
Capital campaign			34,394	34,394
Other	6,564	295	1,896	8,755
Bad debt		8,674		8,674
Interest expense		<u>56,165</u>		<u>56,165</u>
Total Expense Before Depreciation	214,672	124,882	92,022	431,576
Depreciation	<u>6,881</u>	<u>379</u>	<u>379</u>	<u>7,639</u>
TOTAL EXPENSES	<u>\$ 221,553</u>	<u>\$ 125,261</u>	<u>\$ 92,401</u>	<u>\$ 439,215</u>

See independent accountant's review report and accompanying notes to financial statements.

THE MUSTARD SEED PROJECT OF KEY PENINSULA

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 326,924	\$ 336,393
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	10,890	7,639
Amortization of debt issuance costs	2,392	2,571
Donated property and equipment		(3,000)
Net change in operating assets and liabilities	<u>(130,122)</u>	<u>(90,013)</u>
Net Cash Provided by Operating Activities	210,084	253,590
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	<u>(220,909)</u>	<u>(52,183)</u>
Net Cash Used by Investing Activities	(220,909)	(52,183)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt		11,339
Payment of long-term debt		<u>(150,000)</u>
Net Cash Used by Financing Activities		<u>(138,661)</u>
NET INCREASE (DECREASE) IN CASH	(10,825)	62,746
Cash at Beginning of Year	<u>252,980</u>	<u>190,234</u>
CASH AT END OF YEAR	<u>\$ 242,155</u>	<u>\$ 252,980</u>
COMPONENTS OF CASH		
Cash	\$ 149,200	\$ 251,192
Restricted cash	<u>92,955</u>	<u>1,788</u>
	<u>\$ 242,155</u>	<u>\$ 252,980</u>

See independent accountant's review report and accompanying notes to financial statements.

THE MUSTARD SEED PROJECT OF KEY PENINSULA

STATEMENTS OF CASH FLOWS (Continued)

Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
COMPONENTS OF NET CHANGE IN OPERATING ASSETS AND LIABILITIES		
(Increase) decrease in assets		
Accounts receivable		\$ 8,674
Pledges receivable	\$ 44,951	(10,455)
Prepaid expense	(4,080)	(1,249)
Increase (decrease) in liabilities		
Accounts payable	(170,105)	(67,950)
Payroll tax liabilities	(1,288)	(1,173)
Tenant security deposits	400	
Accrued interest		(17,860)
	<u> </u>	<u> </u>
Net Change in Operating Assets and Liabilities	\$ <u>(130,122)</u>	\$ <u>(90,013)</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ <u>32,041</u>	\$ <u>53,594</u>
NONCASH INVESTING AND FINANCING ACTIVITIES		
Purchase of fixed assets in accounts payable	\$ <u>169,350</u>	\$ <u>228,848</u>

See independent accountant's review report and accompanying notes to financial statements.

THE MUSTARD SEED PROJECT OF KEY PENINSULA

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Mustard Seed Project of Key Peninsula (the "Organization") was founded in 2006 and operated under the fiscal sponsorship of The Franciscan Foundation until February 25, 2011, when it received its own 501(c)(3) status from the Internal Revenue Service. The Mustard Seed Project of Key Peninsula is a nonprofit organization whose mission is to assure that a full continuum of high quality, affordable services and programs are available to meet the needs of aging Key Peninsula residents, so that they can "age in place." The Organization is supported primarily through grants and contributions from local foundations, individuals, businesses and government agencies.

Basis of Accounting

The accompanying financial statements are prepared using the accrual basis of accounting and, accordingly, reflect significant receivables, payables and other liabilities.

Basis of Presentation

The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets without Donor Restrictions

Net assets that are not subject to donor-imposed stipulations.

Net Assets with Donor Restrictions

Net assets subject to donor-imposed stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire by the passage of time and net assets subject to donor-imposed stipulations that they be maintained permanently. The Organization did not have any net assets restricted to be maintained permanently at June 30, 2019 and 2018.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law.

Cash

The Organization considers cash to be cash in checking accounts, savings accounts and money market accounts.

THE MUSTARD SEED PROJECT OF KEY PENINSULA

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pledges Receivable

Pledges receivable are recorded when the underlying promises are received by the Organization. The Organization considers all pledges receivable to be fully collectible, therefore, no allowance for doubtful accounts has been established. Pledges to be received after one year are discounted at an appropriate discount rate using U.S. Treasury rates corresponding to the period in which the contribution is to be received if considered material.

Property and Equipment

The Organization capitalizes all expenditures for property and equipment in excess of \$1,000 and all expenditures for repairs and maintenance, renewals and betterments that prolong the useful lives of assets are capitalized.

Donated property and equipment are recorded at their fair value at the date of donation. There were no such contributions received for the year ended June 30, 2019 and \$3,000 received in donated property and equipment for the year ended June 30, 2018.

Depreciation is computed using the straight-line method over the estimated useful lives of 3 to 39 years.

Depreciation expense was \$10,890 and \$7,639 for the years ended June 30, 2019 and 2018, respectively.

Construction in progress consists of development costs related to a low income senior housing facility.

Impairment of Long-lived Assets

In accordance with authoritative guidance, the Organization makes a determination as circumstances indicate necessary as to whether the value of long-lived assets, including assets to be disposed of, have been impaired. The determination is based on several criteria, including, but not limited to, revenue trends, undiscounted operating cash flows and other operating factors. Management believes there were no impairment adjustments necessary for the years ending June 30, 2019 and 2018.

Debt Issuance Costs

Debt issuance costs are capitalized and reported as a reduction from the carrying amount of the associated debt. Debt issuance costs are charged to interest expense on a straight line basis over the term of the related loan. Debt issuance costs charged to interest expense were \$2,392 and \$2,571 for the years ended June 30, 2019 and 2018, respectively.

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

THE MUSTARD SEED PROJECT OF KEY PENINSULA

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributed Goods and Services

Contributed services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills and would otherwise be purchased by the Organization.

Many individuals volunteer their time and perform a variety of tasks that assist the Organization in delivery of services. No amounts have been reflected in the financial statements for these donated services.

In-kind contributions totaled \$24,724 and \$35,496 for the years ended June 30, 2019 and 2018, respectively.

Functional Expenses

Functional expenses are allocated between programs, general and administrative and fundraising based on management's estimates and studies of the cost attributable to the programs or support services.

Advertising

The Organization expenses advertising and marketing costs as they are incurred. Advertising costs totaled \$3,301 and \$2,023 for the years ended June 30, 2019 and 2018, respectively.

Concentration of Credit Risk

The Organization may, at times, have balances that exceed federally insured deposit limits. Management has not experienced any losses and believes there is minimal risk associated with these cash balances.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Organization to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Tax

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Reclassifications

Certain accounts in the prior year consolidated financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

THE MUSTARD SEED PROJECT OF KEY PENINSULA

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Change in Accounting Principle

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2016-14, *Presentation of Financial Statements of Not-for-profit Entities*. The update addresses the complexity and understandability of net asset classification, information about liquidity and availability of resources and consistency in the type of information provided about expenses and investment return. We have implemented ASU 2016-14 and have adjusted the presentation in these financial statements accordingly.

Subsequent Events

Management of the Organization has evaluated subsequent events for potential recognition and disclosure through September 24, 2019, the date the accountant's review procedures were completed.

NOTE 2 - LIQUIDITY AND AVAILABILITY

Financial assets available for expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following at June 30:

	<u>2019</u>	<u>2018</u>
Cash and restricted cash	\$ 242,155	\$ 252,980
Pledges receivable	<u>38,108</u>	<u>83,059</u>
Total Financial Assets	280,263	336,039
Less financial assets not available for general expenditures		
Restricted cash	(92,955)	(1,788)
Pledges receivable	<u>(38,108)</u>	<u>(83,059)</u>
Financial Assets Available to Meet Cash Needs	\$ <u>149,200</u>	\$ <u>251,192</u>

The Organization also has a \$20,000 line of credit available to draw upon for operating cash management purposes. Income from donor-restricted endowments is available for general use.

THE MUSTARD SEED PROJECT OF KEY PENINSULA

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

NOTE 3 - PLEDGES RECEIVABLE

Pledges receivable consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Unconditional promises expected to be collected in		
Less than one year	\$ 38,108	\$ 53,022
One year to two years	<u> </u>	<u>30,037</u>
	\$ <u>38,108</u>	\$ <u>83,059</u>

NOTE 4 - NOTE PAYABLE

The Organization opened an unsecured \$20,000 line of credit arrangement with a bank that matures on November 5, 2024. The Organization uses the line of credit for short term working capital periodically throughout the year. There was no outstanding balance as of June 30, 2019. The interest rate in effect at June 30, 2019 was 10.75%.

NOTE 5 - LONG-TERM DEBT

Long-term debt consists of the following at June 30:

	<u>2019</u>	<u>2018</u>
Note payable to Capital Impact Partners. Due in full January 1, 2020, with interest accruing annually at 5.75%. Secured by a deed of trust and second blanket lien on all tangible and intangible business assets.	\$ 750,000	\$ 750,000
Less unamortized debt issuance costs	<u>29,105</u>	<u>31,497</u>
Long-term Debt, Net of Unamortized Debt Issuance Costs	720,895	718,503
Less current portion due within one year classified as a current liability	<u>720,895</u>	<u> </u>
Long-term Debt, Net of Current Portion	\$ <u> </u>	\$ <u>718,503</u>

The loan is subject to certain covenants. The Organization did not meet those covenants for the year ended June 30, 2019 and 2018. The Organization received a waiver for the loan covenants for the note payable in the amount of \$750,000.

THE MUSTARD SEED PROJECT OF KEY PENINSULA

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

NOTE 6 - NET ASSETS WITH DONOR RESTRICTIONS

At June 30, 2019 and 2018, the Organization had \$131,063 and \$176,003, respectively, in net assets with restrictions from a capital campaign to build senior housing.

NOTE 7 - RELATED PARTY TRANSACTIONS

The Organization has received several promises to give from board members. Contribution revenue from board members supporting programs and operations totaled \$31,943 and \$17,503 for the years ended June 30, 2019 and 2018, respectively. Pledges receivable from board members totaled \$5,259 and \$16,609 for the years ended June 30, 2019 and 2018, respectively.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

The Organization intends to build a senior housing project with anticipated total cost of approximately \$12,000,000, of which \$7,000,000 will be financed, and approximately \$5,000,000 raised through a capital campaign.

The Organization is currently in the process of applying for permanent financing for their senior housing project.

NOTE 9 - RENTAL INCOME

The Organization leases unused space to other not-for-profit organizations. Lease arrangements vary by tenant and monthly rental income varies from \$400 to \$600 a month. The Organization also leases unused space on an hourly basis.

Rental income was \$19,234 and \$10,130 for the years ended June 30, 2019 and 2018, respectively.

Projected rental income based on the non-cancellable portion of the leases subsequent to June 30, 2019 are as follows:

2020	\$ 6,724
2021	<u>408</u>
	\$ <u>7,132</u>

THE MUSTARD SEED PROJECT OF KEY PENINSULA

NOTES TO FINANCIAL STATEMENTS

June 30, 2019 and 2018

NOTE 10 - FUNCTIONALIZED EXPENSES

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include wages, payroll taxes, bank service fees, property taxes, computer internet and service, dues and subscriptions, insurance, postage and shipping, professional services, repairs and maintenance, supplies, travel and parking, utilities, other and depreciation, which are allocated on the basis of management's estimates of time and effort.