

**LEECH LAKE FINANCIAL SERVICES, INC.**  
**CASS LAKE, MINNESOTA**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**AND INDEPENDENT AUDITOR'S REPORT**  
**DECEMBER 31, 2023**

**LEECH LAKE FINANCIAL SERVICES, INC.**  
**CASS LAKE, MINNESOTA**  
**DECEMBER 31, 2023**

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Leech Lake Financial Services, Inc.  
Cass Lake, Minnesota

### **Opinion**

We have audited the accompanying consolidated financial statements of Leech Lake Financial Services, Inc., (a nonprofit organization) and subsidiary (the Organization), which comprise the consolidated statement of financial position as of December 31, 2023, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Leech Lake Financial Services, Inc. and subsidiary as of December 31, 2023, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*Miller McDonald, Inc.*

Bemidji, Minnesota  
June 28, 2024

**LEECH LAKE FINANCIAL SERVICES, INC.**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2023**

**ASSETS**

**Current Assets**

Cash and Cash Equivalents	\$ 987,685
Accounts Receivable	30,177
Grants Receivable	116,486
Current Portion Loans Receivable, Net	247,579
Total Current Assets	<u>1,381,927</u>

**Fixed Assets**

Buildings and Improvements	270,451
Furniture, Fixtures, and Equipment	30,226
Construction in Progress	46,640
	<u>347,317</u>
Less Accumulated Depreciation	(52,040)
Fixed Assets, Net	<u>295,277</u>

**Other Assets**

Loans Receivable - Less Current Portion, Net	<u>55,747</u>
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**Total Assets**

**\$ 1,732,951**

**LIABILITIES AND NET ASSETS**

**Current Liabilities**

Line of Credit	\$ 140,000
Current Portion Long-Term Debt	157,206
Accounts Payable	18,666
Accrued Expenses	32,866
Due to Other Organizations	52,301
Refundable Advance	487,946
Total Current Liabilities	<u>888,985</u>

**Non-Current Liabilities**

Long-Term Debt - Less Current Portion	240,890
Other Non-Current Liabilities	15,624
Total Non-Current Liabilities	<u>256,514</u>

**Total Liabilities**

1,145,499

**Net Assets**

Without Donor Restrictions	225,752
With Donor Restrictions	361,700
Total Net Assets	<u>587,452</u>

**Total Liabilities and Net Assets**

**\$ 1,732,951**

See Accompanying Notes to the Consolidated Financial Statements.

**LEECH LAKE FINANCIAL SERVICES, INC.**  
**CONSOLIDATED STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2023**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b><u>Revenue, Gains, and Other Support</u></b>			
Support From the Public:			
Grants and Contributions	\$ 725,278	\$ -	\$ 725,278
Other Revenue:			
Interest	44,712	-	44,712
Other Revenue	19,479	-	19,479
Total Other Revenue	<u>64,191</u>	<u>-</u>	<u>64,191</u>
Total Revenue	789,469	-	789,469
Net Assets Released from Restrictions	<u>24,818</u>	<u>(24,818)</u>	<u>-</u>
Total Revenue, Gains and Other Support	<u>814,287</u>	<u>(24,818)</u>	<u>789,469</u>
<b><u>Expenses</u></b>			
Program Services	528,754	-	528,754
Management and General	349,327	-	349,327
Total Expenses	<u>878,081</u>	<u>-</u>	<u>878,081</u>
<b><u>Change in Net Assets</u></b>	(63,794)	(24,818)	(88,612)
<b><u>Net Assets, Beginning of Year</u></b>	<u>289,546</u>	<u>386,518</u>	<u>676,064</u>
<b><u>Net Assets, End of Year</u></b>	<u>\$ 225,752</u>	<u>\$ 361,700</u>	<u>\$ 587,452</u>

See Accompanying Notes to the Consolidated Financial Statements.

**LEECH LAKE FINANCIAL SERVICES, INC.**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2023**

	<u>Program Activities</u>			<u>Supporting Services</u>	<u>Total</u>
	<u>Financial Services</u>	<u>Community Development</u>	<u>Total</u>	<u>Management and General</u>	
Salaries	\$ 56,131	\$ 121,919	\$ 178,050	\$ 205,949	\$ 383,999
Payroll Taxes	5,597	9,708	15,305	17,614	32,919
Employee Benefits	5,307	11,830	17,137	27,378	44,515
Occupancy	-	-	-	10,488	10,488
Telephone	-	-	-	5,447	5,447
Supplies	1,016	-	1,016	24,449	25,465
Rental and Maintenance of Equipment	-	-	-	1,279	1,279
Printing and Publications	13,822	-	13,822	9,291	23,113
Postage and Shipping	502	-	502	-	502
Conference and Meetings	2,755	486	3,241	-	3,241
Travel	16,190	2,351	18,541	-	18,541
Professional Fees	204,821	37,646	242,467	9,300	251,767
Awards and Grants	10,581	-	10,581	-	10,581
Miscellaneous Expenses	13,851	2,732	16,583	21,386	37,969
Depreciation	5,208	-	5,208	3,843	9,051
Bad Debt Expense	(6,805)	-	(6,805)	-	(6,805)
Interest Expense	13,106	-	13,106	12,903	26,009
	<u>\$ 342,082</u>	<u>\$ 186,672</u>	<u>\$ 528,754</u>	<u>\$ 349,327</u>	<u>\$ 878,081</u>

See Accompanying Notes to the Consolidated Financial Statements.

**LEECH LAKE FINANCIAL SERVICES, INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2023**

<b><u>Cash Flow from Operating Activities</u></b>	
Change in Net Assets	\$ (88,612)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:	
Depreciation Expense	9,051
(Increase) Decrease in Assets:	
Accounts Receivable	(14,534)
Grants Receivable	86,041
Loans Receivable	146,265
Increase (Decrease) in Liabilities:	
Accounts Payable	(11,678)
Accrued Expenses	(412)
Due to Other Organizations	52,301
Other Liabilities	2,014
Refundable Advance	<u>13,054</u>
Cash Provided by (Used in) Operating Activities	193,490
<b><u>Cash Flow from Financing Activities</u></b>	
Principal Payments on Notes Payable	<u>(5,865)</u>
<b><u>Net Increase in Cash and Cash Equivalents</u></b>	187,625
<b><u>Cash and Cash Equivalents, Beginning of Year</u></b>	<u>800,060</u>
<b><u>Cash and Cash Equivalents, End of Year</u></b>	<u>\$ 987,685</u>
<b><u>CASH PAID DURING THE YEAR FOR:</u></b>	
Interest	<u>\$ 26,009</u>

See Accompanying Notes to the Consolidated Financial Statements.

**LEECH LAKE FINANCIAL SERVICES, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2023**

**1. Nature of Operations and Summary of Significant Accounting Policies**

**Nature of Operations** – Leech Lake Financial Services, Inc. is a tribal 501(c)(3) nonprofit corporation, incorporated September 11, 2014. Their purpose is to promote community economic development by providing safe, affordable loans for applicants that normally would not qualify for conventional loans and financial training for individuals and business owners.

During 2019, Leech Lake Financial Services, Inc. established a wholly-owned subsidiary, Build One Properties, LLC, under the laws of the Leech Lake Band of Ojibwe for the purpose of economic development.

**Consolidated Financial Statements** – The consolidated financial statements include the accounts of Leech Lake Financial Services, Inc. and Build One Properties, LLC (the Organization). Build One Properties, LLC is a wholly owned subsidiary in which Leech Lake Financial Services, Inc. is the only member. All significant intercompany accounts and transactions have been eliminated in the consolidation.

**Basis of Accounting** – The financial statements of the Organization have been prepared on the accrual basis for financial statement reporting, recognizing revenues when earned and expenses when incurred.

**Changes in Accounting Principle** – On January 1, 2023, the Organization adopted FASB ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, which modifies the measurement of expected credit losses on certain financial instruments. The Organization adopted this new guidance utilizing the modified retrospective transition method. The adoption of the standard did not have a material impact on the Organization’s financial statements.

**Basis of Presentation** – The Organization reports information regarding its financial position and activities according to two classes of net assets as follows:

**Net Assets Without Donor Restrictions** – consist of net assets that are not subject to donor-imposed restrictions. Items that affect this net asset category primarily consist of fees for services and related expenses associated with the core activities of the Organization. In addition to these exchange transactions, changes in this category of net assets include investment returns on “funds functioning as endowment” funds and certain types of philanthropic support.

**Net Assets With Donor Restrictions** – net assets are subject to donor- (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor imposed restrictions are released

**LEECH LAKE FINANCIAL SERVICES, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose has been fulfilled, or both. The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

**Revenue and Support** – Contributions received and unconditional promises to give are measured at fair value and reported as increases in net assets. Grants and other contributions of cash and other assets are reported as with donor restrictions if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. The Organization has net assets with donor restrictions that are restricted for business loans and related administrative costs.

Program service revenue is reported at the estimated net realizable amount due from third party payers and others when the services are performed.

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of the donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as contributions with donor restrictions.

Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Donated services are recognized as contributions, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased. There were no donated services included as contributions in 2023.

Refundable advance consists of funds held by the Organization that have not been earned due to timing differences between receipt and expenditure.

**LEECH LAKE FINANCIAL SERVICES, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**Loans Receivable** – Loans receivable represent the unpaid balance on loans to individuals and businesses, less an allowance for loan losses. Individual loans are available for short-term financial needs and to assist in building credit. Loans to assist in building credit are available to employed individuals are secured by the employees' PTO. Business and auto loans are secured by assets and personal guarantees.

The allowance for loan loss is maintained at a level, in management's judgement, that is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectability of the loan portfolio, including the nature of the portfolio, trends in historical losses, and specific loan forecasts.

Interest on loans is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding.

**Functional Allocation of Expenses** – The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Use of Estimates in the Preparation of Financial Statements** – The preparation of financial statements in conformity with generally accepted accounting principles requires management 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 amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Income Tax Status** – The Organization is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. They are required to file Form 990 annually with the Internal Revenue Service to report their activities.

Build One Properties, LLC is a for-profit entity that has immunity from federal, state, and local taxes under the sovereignty of Leech Lake Band of Ojibwe.

**Uncertain Tax Positions** – The Organization follows the recognition requirements for uncertain income tax positions as required by generally accepted accounting principles, with no cumulative effect adjustment required. The guidance prescribes recognition threshold principles for the financial statements recognition of tax positions taken or expected to be taken on a tax filing that are not certain to be realized. The implementation of this guidance had no impact on the Organization's financial statements.

The Organization's tax filings are subject to review and examination by federal and state authorities. The Organization is not aware of any activities that would jeopardize its tax-exempt status, or any activities that are subject to tax on unrelated business income, or other taxes.

**LEECH LAKE FINANCIAL SERVICES, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**Cash and Cash Equivalents** – For purposes of the statement of cash flows, all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered to be cash equivalents.

The Organization maintains its cash in bank deposit accounts, which at times may exceed federally insured limits. The Organization has not experienced any losses in such accounts.

The Organization’s cash and cash equivalents include \$ cash with use restrictions: \$357,446 of rural community development and \$41,862 held for other organizations.

**Accounts Receivable** – Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Based on management’s assessment of the credit history with customers having outstanding balances and current relationships with them, it has concluded that bad debt losses on balances outstanding at year-end will be immaterial.

**Advertising** – Advertising costs are expensed as incurred. Advertising expense for the year ended December 31, 2023 was \$23,113.

**Property and Equipment** – Property and equipment are stated at cost if purchased or, if donated, at fair value. The Organization capitalizes additions of property and equipment with an initial cost or fair value of \$5,000 or greater. Depreciation is computed using the straight-line method over the estimated useful life of the particular asset as follows:

		<u>Accumulated Depreciation</u>
Furniture, Fixtures, and Equipment	5-10 Years	\$ 46,823
Building and Building Improvements	40 Years	5,217
		<u>\$ 52,040</u>

2. **Loans Receivable**

Loans receivable are summarized as follows:

Individuals	\$ 346,087
Businesses	4,477
	<hr/>
Total Loans Receivable	350,564
Allowance for Loan Loss	(47,238)
	<hr/>
Loans Receivable, Net	<u>\$ 303,326</u>

**LEECH LAKE FINANCIAL SERVICES, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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The allowance for loan loss was reduced during the year by \$32,370 for write-off of a level 6 small business loan.

The following table summarizes the loan rating applied to each loan type:

Risk Rating		Automobile	Mino Maaji	Small Business	Credit Builder	Total
1	Highest Quality	\$ 55,580	\$ 7,751	\$ 4,477	\$ -	\$ 67,808
2	Good Quality	6,095	3,184	-	-	9,279
3	Moderate Risk	5,386	13,582	-	-	18,968
4	High Risk	-	18,252	-	-	18,252
5	Higher Risk	-	5,824	-	-	5,824
6	Extreme Risk	7,988	24,451	-	-	32,439
	PTO Secured	-	14,656	-	183,338	197,994
		<u>\$ 75,049</u>	<u>\$ 87,700</u>	<u>\$ 4,477</u>	<u>\$ 183,338</u>	<u>\$ 350,564</u>

The Organization's risk rating system at the loan origination is based on point system that uses the value of the collateral in relation to the loan, the applicants applicable credit score, and applicants financial training. On a continuing basis, the loan rating is adjusted based on collateral value in relation to the loan, payment history, and future economic considerations. The estimated loan loss is based on percentages applied to risk rating: 1 – 5%, 2 – 10%, 3 – 15%, 4 – 25%, 5 – 50%, and 6 – 100%. Loans secured by PTO are given a zero risk rating percentage due to the loan being secured by a contract with employers. The contract reduces the employees PTO for the amount of the loan.

### 3. Lines of Credit

The Organization has two lines of credit with its bank for \$40,000 and \$100,000, respectively due February 1, 2024. The lines have an interest rate that is set 1% above the NY Prime rate. The current rate is 8.5% subject to changes in the NY Prime rate. All unpaid principal and interest is due at maturity. The notes are secured by assets of the Organization. The balance outstanding on the lines of credit at December 31, 2023 was \$140,000.

### 4. Long-Term Notes Payable

In 2021, the Organization obtained a loan from a financial institution in the amount of \$151,000 for the purpose of consumer lending. During 2023, the note was extended to May 27, 2024. The note is payable in quarterly interest installments, with an interest rate of 4%. This note is secured by inventory and equipment. The balance outstanding at December 31, 2023 was \$151,000.

**LEECH LAKE FINANCIAL SERVICES, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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On June 19, 2020, the Organization obtained a mortgage from a bank in the amount of \$115,000. The note is payable in monthly installments of \$946, with an interest rate of 5.5%. A balloon payment is due July 1, 2025. The note is secured by the Organization's building and future rent collections. The balance outstanding at December 31, 2023 was \$97,096.

In 2021, the Organization obtained a loan from a foundation in the amount of \$150,000. The note is payable in annual interest payments, with an interest rate of 1%, starting February 1, 2022 with a balloon payment due February 1, 2028. The balance outstanding at December 31, 2023 was \$150,000.

The following is a schedule of aggregate principal payment obligations for subsequent years:

December 31, 2024	\$ 157,206
2025	90,890
2026	-
2027	-
2028	150,000
	<u>\$ 398,096</u>

**5. Risk Management**

The Organization is exposed to various risks of loss to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; workers' compensation claims; and natural disasters. Property, casualty, malpractice, and workers' compensation liabilities are insured. The Organization retains risk for the deductible portions of the insurance. Management estimates there were no losses or claims in excess of insurance coverage in 2023.

**6. Liquidity and Availability**

The Organization has \$1,381,927 of liquid assets available within one year of the balance sheet date. Of that amount, \$1,001,740 of financial assets are available for general expenditures, such as operating expenses and scheduled principal payments on debt.

Lines of credit are maintained for liquidity needs. As discussed in Note 3, \$0 is available for operating expenses.

**LEECH LAKE FINANCIAL SERVICES, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**7. Commitments and Contingencies**

The Organization participates in various grant programs, which are governed by rules and regulations of the grantor agencies.

Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Organization has not complied with the rules and regulations governing the grant, refunds of money received may be required and the ability to collect any of the related receivable at December 31, 2023 may be impaired. In the opinion of the Organization, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying consolidated financial statements for such contingencies.

**8. Net Assets Classification**

Net assets with donor restrictions at December 31, 2023 were available for the following purposes:

<b>Purpose Restriction</b>	
Rural Community Development	\$ 361,700

**9. Methods Used for Allocation of Expenses Among Functions**

The financial statements of Leech Lake Financial Services, Inc. report certain categories of expenses that are attributable to more than one program or supporting function. Those expenses include payroll. Payroll is allocated based on estimates of time on each function.