"I don’t have any answers. I’m a non-prophet."
Money Talks ...

Running a not-for-profit organization like a for-profit

Susan S. Fitzpatrick, CPA
Keystone Substance Abuse Services
Director of Finance & Operations
Money Talks ...
Susan Fitzpatrick, CPA
- Ernst & Young (Whinney) 1985 – 1990, Audit Staff
- Keystone Substance Abuse Services, York County
  - Controller/ Director of Finance 1997 – 2010 (part time)
  - Director of Finance and Operations, 2010
    - Recent experience/ specialty (?) in IT security
    - Ongoing involvement in implementation of CareLogic (the new electronic health record of all 301 agencies).
- Twenty four year resident of Rock Hill, SC
  - Participated as board member of many PTO’s in RHSD3
Getting to know you ...

- How many in the room are ...
  - Board Members?
    - With non-financial vocation?
  - Executive Directors?
  - Finance Staff?
  - Clemson fans?

- Who was here for this session last year?
Accountant humor – 2014 update

Financial Feast in a Can!
Pork n’ Bean Counters
Meal of CORPORATE CHAMPIONS!
Swine-dly Goodness
NOW with more piggish profits
Fortified with 5 Financial Nutrients

mmmm… the perfect addition to any business buffet
Why be business–like??

- Why not?
- Arguments against running not–for–profits like for–profits:
  - Mr. Michael Edwards

Counterpoint: *Mr. Edwards is a distinguished senior fellow at Demos, a New York-based research and advocacy group, and author of "Small Change: Why Business Won't Save the World."*

For starters, let's not forget the reason we have philanthropy in the first place. It's to support work that will never be funded or supported effectively by the market or government. By definition, then, too much business thinking will push resources away from the poorest people, the most difficult problems, and the most important solutions—which tend to be costly, complex and slow in coming.

A business monoculture, in which all conform to the same criteria for giving, is ineffective, undemocratic and less fun. It reduces philanthropy to little more than an exercise in accountancy.
Non-profit humor

"I was looking for a little stronger mission statement than that."
Today’s Learning Objective

- Compare Not-for-Profit organizations with For-Profit organizations.

- Look at managing / governing a Not-for-Profit in a way that is business-like, but never losing sight of the organization’s mission.
  - Threaded with requirements of CARF Accreditation

- Give board members some tools for evaluating financial reports.
What’s in a name?

- **Non-profit.**
  - Misleading. There’s nothing wrong with a charity earning a profit, as long as the profit is redirected to further the mission of the organization. Widely held myth.

- **Not-for-profit (NFP)**
  - The organization exists not to provide profit to its owners. The organization does exist to fulfill a specific *mission* that is approved by the IRS for the betterment of the community it serves.

- **Exempt Organization**
  - In the eyes of the IRS. This is actually a very important designation, as Tax Exempt Status is, in the opinion of some, the most valuable asset of the organization. Protect it!
Not–for–profits are Big Business

- The sum of all assets held by not–for–profits would create the 6th largest economy in the world. –2006 FASB
- The sum of all activities of not–for–profits comprise 5% of GDP in the US in 2010. –Urban Institute
- Between 2001 and 2011, the number of nonprofits has increased 25 percent; from 1,259,764 million to 1,574,674 million today. The growth rate of the nonprofit sector has surpassed the rate of both the business and government sectors. –Urban Institute

South Carolina:
- Number of non–profits – 21,365
- Number filing IRS 990’s – 8,835
- Total Revenue $13,798,168,482
- TotalAssets $28,714,592,409

(Urban Institute)
“Business” definition

Online search:

- **a**: a usually commercial or mercantile activity engaged in as a means of livelihood: trade, line <in the restaurant business>
- **b**: a commercial or sometimes an industrial enterprise; also: such enterprises <the business district>
- **c**: dealings or transactions especially of an economic nature: patronage <took their business elsewhere>

Note the absence of the words “Profit” and “Money”.

The “business-like” cycle of the Not-for-profit.
CARF’s A.S.P.I.R.E. model

Assess the Environment

Set Strategy

Person Served & Other Stakeholders - Obtain Input

Implement the Plan

Review Results

Effect Change

Effect
## Mission – NFP vs. For-Profit

<table>
<thead>
<tr>
<th>Has a mission statement</th>
<th>For Profit</th>
<th>Not-for-Profit</th>
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<tbody>
<tr>
<td>✓</td>
<td>✓</td>
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<table>
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<tr>
<th>Has core values statement</th>
<th>For Profit</th>
<th>Not-for-Profit</th>
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<tbody>
<tr>
<td>✓</td>
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</table>

<table>
<thead>
<tr>
<th>Primary mission: to maximize shareholder /owner profits</th>
<th>For Profit</th>
<th>Not-for-Profit</th>
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</thead>
<tbody>
<tr>
<td>✓</td>
<td></td>
<td>✗</td>
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</table>

<table>
<thead>
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<th>Primary mission: to improve society</th>
<th>For Profit</th>
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<tr>
<td>✗</td>
<td>✓</td>
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</table>
The Mission Statement

- Do you know your organization’s mission statement?
- Do staff know the organization’s mission statement?
- When was the last time the mission statement was updated?
- Is the mission statement consistent with what the organization's official IRS tax exempt purpose?
The “business-like” cycle of the Not-for-profit.
Strategy

“If the mission is the WHY and WHAT of an organization… the strategic plan is the WHEN and HOW.”

–Phil Sherman, CPA
Strategic Planning

- Peter Drucker in “Managing the Non-Profit Organization”:
  - There’s an old saying that good intentions don’t move mountains; bulldozers do. In non-profit management, the mission and the plan – if that’s all there is – are the good intentions. Strategies are the bulldozers. They convert what you want to do into accomplishment.
# Strategy

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<tr>
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<tbody>
<tr>
<td>Needs a long-term vision</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Needs short term plans</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Can plan long term expansion of its business by creating</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>profits short term.</td>
<td></td>
<td></td>
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<tr>
<td>Can receive tax-deductible donations from individuals and grants</td>
<td>×</td>
<td>✓</td>
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<tr>
<td>from gov’t and foundations to maintain/ expand services.</td>
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</table>
Strategic Planning

Who should be involved?
- Board of Directors
- Executive Director
- Management team
- Staff
- Funders
- Consumers

Input of all of the above is **required by CARF**
Strategic Planning

Long Term Plan (3 to 5 years)
1. Understand the Mission
2. Set long term programatic goals. Assign timeframe for implementing new efforts.
3. Set annual finance benchmarks (staff salaries, % changes in revenues, expenses).
4. Determine feasibility of new efforts. Include source of capital spending (grants/ debt/ reserves?)
5. Go back to step 3 (or 2) if annual budgets don’t make sense.
Strategic Planning

- How often do you compare your annual progress to the long term goals?

- When do you revise a long term plan?
  - Before it’s over?
  - As soon as it ends?
  - At point in the plan when forecast and reality are clearly not compatible?

- Note: CARF and DAODAS do not require written long term plans.
The “business-like” cycle of the Not-for-profit.
Annual Goals

Goals = Dreams with Deadlines

... and price tags
### Annual Goals – NFP vs. For-Profit

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<tr>
<td>Should be clear and measurable</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>After set, should be compared</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>to actual results regularly</td>
<td></td>
<td></td>
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<tr>
<td>Should include service related,</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>and financial goals.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Should include tax effect of</td>
<td>✓</td>
<td>❌ *</td>
</tr>
<tr>
<td>plans</td>
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* Remember that business activities carried on to raise money for a charity can (and often are) taxable. “Unrelated Business Income Tax"
Annual Goals

The *quantified* goals for allocation of financial, human and capital resources for the new fiscal year.

- Types of budget
  - Operating budget/ cash flow
  - Capital / equipment/ facility planning
  - Investment/ endowment planning
Annual Goals

- Annual strategic planning for the 301 system, requires
  - County plan required by DAODAS, Act 301
  - Prevention management plan required by DAODAS
  - CARF requires a budget: must be approved for new year before close of current year.
    - Hint: At June meeting, if new budget is not ready for approval, board can temporarily reapprove previous year’s budget.
  - CARF requires programmatic goals in each area (accessibility, effectiveness, efficiency, satisfaction) for every program reviewed
    - Requirement includes identified areas for improvement and action steps to be taken
Staff prepares a budget proposal

The BOD Finance Committee should review and give input to detailed budget before full board approves. This meeting should take place a few days before the full board votes on the budget to allow for input & changes.

- In small NFP’s the board Finance Committee will have more involvement in creating the budget than in larger organizations.
- If staff prepares the budget, staff should give extensive detail (in writing) to Finance Committee.

The Finance Committee will recommend the budget for approval of the full board. A One Pager is sufficient for the full board to consider when voting.
Budget Analysis

- Budget analysis for consideration of full board should be one page, containing:
  - Prior year budget
  - Prior year actual results
  - Current year budget
  - Change from prior year budget
    - As a percent
    - As a dollar amount
  - Change from prior year actual
    - As a percent
    - As a dollar amount
  - Brief description of line item, and of changes
The bottom line of operating budget...

- Ideally should be zero.
- If above zero, state plan for surplus in accordance with mission of organization (build reserve, capital expansion, pay down debt, etc.)
- If below zero, should have plan in long term plan to go back to break even bottom line.
  - How fast would repeated budget deficit deplete reserves?
  - “Going concern” issues.

"Going concern" issues.
Annual Goals– the Budget

Revenue: Estimates should be conservative. Better to underestimate revenue than overestimate.

- Somewhat predictable revenues –
  - Alcohol tax (reset every ten years)
  - DAODAS consolidated grant
    - Fixed for years, but changes are on horizon
  - Special DAODAS awards

- Less predictable
  - Medicaid
  - Insurance and client payments
  - Donations
  - Grants from foundations (tend to be short term)
Annual Goals– the Budget

Expenses:

- Personnel expenses (including fringe benefits) are the single largest cost – 75% to 80%..
  - Should be controllable and predictable.
  - Is often largely fixed with full time staff, and some flexibility with part time to manage volume.
  - Understand contractor budgets; ask questions. This is a hot button issue with the IRS and SC unemployment commission for all businesses. IRS has parameters for what construes a legitimate contractor.
Annual Goals – the Budget

- Expenses – the other 20%-25%
  - Contracted services (occupancy, training, audit fees)
  - Supplies
  - Fixed charges (liability insurance)
  - Travel
  - Debt service
  - Equipment
  - Other “non-reimbursable”
    - Means that these costs cannot be paid for with DAODAS funds. Includes legal fees, food costs, lobbying (BHSA).
The “business-like” cycle of the Not-for-profit.
Measuring/ Accountability

- Peter Drucker, in “Managing the Non-Profit Organization”:
  - In a non-profit organization ... there is the temptation to say, “We are serving a good cause. We are doing the Lord’s work.” Or we are doing something to make life a little better for people and that’s a result in itself. *That is not enough.* If a [for profit] business wastes its resources on non-results, by and large it loses its own money. In a non-profit institution, though, it’s somebody’s else’s money – the donor’s [or taxpayer’s] money.
Measuring / Accountability

Comparing actual results to budgets:

- Board of Directors should receive finance reports on a regular basis throughout the year: monthly or possibly quarterly.
  - Typically given by staff, but very small not-for-profits have more board involvement in finances, so it could be that the Board Treasurer gives finance reports.
  - Should reflect the current period and year to date, with comparison to
    - Year to date budget
    - Last year (as of the same point in time)
Measuring / Accountability

Finance report to Board of Directors, cont’d

- **Material** variances should be explained.
  - If written, must be discussion in board meeting, with time for questions.
  - At Keystone, written reports are presented each month, but detailed line by line discussion occurs only at quarter end (monthly can become “broken record”).
  - Materiality will vary between agencies

- Reports to full board should be in appropriate level of detail.

- **Keystone:**
  - one page balance sheet,
  - one page profit & loss statement,
  - one page Dashboard.
When Board of Directors hears the finance report, board members MUST

Ask questions!
Be curious!
This demonstrates your Duty of Care

- There is no such thing as a silly question.
- There is no limit to the number of times you can ask the same question.
- It’s OK if a staff doesn’t know the answer, but not OK if they don’t follow up.
Measuring / Accountability

Balance Sheet contains information about:

- **Assets**: What the agency owns
  - Cash & Investments
  - Receivables (Grants earned but not received yet)
  - Prepaid expenses (Expenses paid in advance)
    - Subtotal Current Assets
      - Expected to convert to cash (or benefit agency) in a year or less
  - Fixed assets – building and depreciable equipment, with accumulated depreciation
Measuring / Accountability

Balance Sheet contains information about:

- **Liabilities**: What the agency owns
  - Accounts payable – routine bills
  - Accrued expenses – costs incurred that aren’t billed yet
  - Payroll liabilities – taxes, retirement, insurance, etc, that has been withheld from paychecks that is to be remitted
  - Long term debt (if any) – can be separated between portion due in a year and long term.
Measuring / Accountability

Balance Sheet contains information about:

- **Net Assets:** The difference between what the agency owns and what the agency owes.

  Think “equity”
Kinds of questions to ask about the Balance Sheet

- **Why has __________ increased or decreased?**
- **Are cash accounts interest bearing?**
- **Who is able to sign checks? What is cutoff for a second signature?**
- **Are customer receivables shown?**
- **Are Medicaid/insurance receivables shown?**
- **Is there an allowance for uncollectible accounts?**
- **What is in prepaid expenses?**
- **What is “other” receivables?**
- **How long are buildings depreciated for?**
- **Are all bills in accounts payable paid within 30 days?**
- **Are payroll taxes deposited on time?**
- **Are all rents/debts paid up to date?**
AUDITS

“Our books are balanced. 50% of our numbers are real and 50% are made up.”
### Sample Profit & Loss statement, as of December 31\(^{st}\) (6 months into the year)

<table>
<thead>
<tr>
<th></th>
<th>Current month</th>
<th>YTD</th>
<th>Budget YTD</th>
<th>$ Variance Favorable (Unfavorable)</th>
<th>YTD as % of budget</th>
<th>FY 14 BUDGET</th>
<th>Last yr YTD</th>
<th>This year change from last year</th>
<th>YTD as % of last year</th>
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<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State Grants</td>
<td>60,000</td>
<td>360,000</td>
<td>360,000</td>
<td>-</td>
<td>100%</td>
<td>720,000</td>
<td>305,000</td>
<td>55,000</td>
<td>118%</td>
</tr>
<tr>
<td>Medicaid/ MCO</td>
<td>13,000</td>
<td>135,000</td>
<td>180,000</td>
<td>(45,000)</td>
<td>75%</td>
<td>360,000</td>
<td>200,000</td>
<td>(65,000)</td>
<td>68%</td>
</tr>
<tr>
<td>Self Pay program fees</td>
<td>18,000</td>
<td>65,000</td>
<td>75,000</td>
<td>(10,000)</td>
<td>87%</td>
<td>150,000</td>
<td>55,000</td>
<td>10,000</td>
<td>118%</td>
</tr>
<tr>
<td>Foundation grants</td>
<td>6,000</td>
<td>16,000</td>
<td>10,000</td>
<td>6,000</td>
<td>160%</td>
<td>22,400</td>
<td>27,000</td>
<td>(11,000)</td>
<td>59%</td>
</tr>
<tr>
<td>Interest income</td>
<td>35</td>
<td>200</td>
<td>100</td>
<td>100</td>
<td>200%</td>
<td>200</td>
<td>100</td>
<td>100</td>
<td>200%</td>
</tr>
<tr>
<td><strong>TOTAL REVENUE</strong></td>
<td>$ 97,035</td>
<td>$ 576,200</td>
<td>$ 625,100</td>
<td>(48,900)</td>
<td>92%</td>
<td>$ 1,252,600</td>
<td>587,100</td>
<td>(10,900)</td>
<td>98%</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries</td>
<td>75,000</td>
<td>467,000</td>
<td>450,000</td>
<td>17,000</td>
<td>104%</td>
<td>900,000</td>
<td>400,000</td>
<td>67,000</td>
<td>117%</td>
</tr>
<tr>
<td>Contract personnel</td>
<td>5,000</td>
<td>30,000</td>
<td>30,000</td>
<td>-</td>
<td>100%</td>
<td>60,000</td>
<td>2,000</td>
<td>28,000</td>
<td>1500%</td>
</tr>
<tr>
<td>Fringe benefits</td>
<td>21,000</td>
<td>122,003</td>
<td>122,000</td>
<td>3</td>
<td>100%</td>
<td>244,000</td>
<td>101,222</td>
<td>20,781</td>
<td>121%</td>
</tr>
<tr>
<td>Contracted servcies</td>
<td>2,770</td>
<td>14,002</td>
<td>15,000</td>
<td>(998)</td>
<td>93%</td>
<td>30,000</td>
<td>29,600</td>
<td>(15,598)</td>
<td>47%</td>
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<tr>
<td>Supplies</td>
<td>1,400</td>
<td>6,700</td>
<td>9,300</td>
<td>(2,600)</td>
<td>72%</td>
<td>18,600</td>
<td>9,000</td>
<td>(2,300)</td>
<td>74%</td>
</tr>
<tr>
<td><strong>TOTAL EXPENSES</strong></td>
<td>105,170</td>
<td>639,705</td>
<td>626,300</td>
<td>(13,405)</td>
<td>102%</td>
<td>1,252,600</td>
<td>541,822</td>
<td>97,883</td>
<td>118%</td>
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<tr>
<td><strong>SURPLUS (DEFICIT)</strong></td>
<td>$ (8,135)</td>
<td>$ (63,505)</td>
<td>$ (1,200)</td>
<td>-</td>
<td>-</td>
<td>$ 45,278</td>
<td>$ (108,783)</td>
<td></td>
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### Measuring / Accountability

Sample Profit & Loss statement, as of December 31st (6 months into the year)

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<td>2,770</td>
<td>14,002</td>
<td>15,000</td>
<td>(998)</td>
<td>93%</td>
<td>30,000</td>
<td>29,600</td>
<td>(15,598)</td>
<td>47%</td>
</tr>
<tr>
<td>Supplies</td>
<td>1,400</td>
<td>6,700</td>
<td>9,300</td>
<td>(2,600)</td>
<td>72%</td>
<td>18,600</td>
<td>9,000</td>
<td>(2,300)</td>
<td>74%</td>
</tr>
<tr>
<td><strong>TOTAL EXPENSES</strong></td>
<td><strong>105,170</strong></td>
<td><strong>639,705</strong></td>
<td><strong>626,300</strong></td>
<td><strong>(13,405)</strong></td>
<td><strong>102%</strong></td>
<td><strong>1,252,600</strong></td>
<td><strong>541,822</strong></td>
<td><strong>97,883</strong></td>
<td><strong>118%</strong></td>
</tr>
<tr>
<td><strong>SURPLUS (DEFICIT)</strong></td>
<td><strong>(8,135)</strong></td>
<td><strong>(63,505)</strong></td>
<td><strong>(1,200)</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td><strong>45,278</strong></td>
<td><strong>(108,783)</strong></td>
<td></td>
</tr>
</tbody>
</table>
### Measuring / Accountability

Sample Profit & Loss statement, as of December 31st (6 months into the year)

<table>
<thead>
<tr>
<th></th>
<th>Current month</th>
<th>YTD</th>
<th>Budget YTD</th>
<th>$ Variance (Unfavorable)</th>
<th>YTD as % of budget</th>
<th>Trend</th>
<th>FY 14 BUDGET</th>
<th>Last yr YTD</th>
<th>This year change from last year</th>
<th>YTD as % of last year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State Grants-b</td>
<td>$60,000</td>
<td>$360,000</td>
<td>$360,000</td>
<td>$-</td>
<td>100%</td>
<td></td>
<td>$720,000</td>
<td>$305,000</td>
<td>$105,000</td>
<td>118%</td>
</tr>
<tr>
<td>Medicaid/MCO-a</td>
<td>13,000</td>
<td>135,000</td>
<td>180,000</td>
<td>(45,000)</td>
<td>75%</td>
<td>☹☹</td>
<td>360,000</td>
<td>200,000</td>
<td>(60,000)</td>
<td>68%</td>
</tr>
<tr>
<td>Self Pay program fees-a</td>
<td>18,000</td>
<td>65,000</td>
<td>75,000</td>
<td>(10,000)</td>
<td>87%</td>
<td>☹☹</td>
<td>150,000</td>
<td>55,000</td>
<td>10,000</td>
<td>118%</td>
</tr>
<tr>
<td>Foundation grants-c</td>
<td>6,000</td>
<td>16,000</td>
<td>10,000</td>
<td>6,000</td>
<td>160%</td>
<td>☹☺</td>
<td>22,400</td>
<td>27,000</td>
<td>(1,000)</td>
<td>59%</td>
</tr>
<tr>
<td>Interest income-c</td>
<td>35</td>
<td>200</td>
<td>100</td>
<td>100</td>
<td>200%</td>
<td></td>
<td>200</td>
<td>100</td>
<td>100</td>
<td>200%</td>
</tr>
<tr>
<td><strong>TOTAL REVENUE</strong></td>
<td>$97,035</td>
<td>$576,200</td>
<td>$625,100</td>
<td>(48,900)</td>
<td>92%</td>
<td></td>
<td>$1,252,600</td>
<td>587,100</td>
<td>(10,900)</td>
<td>98%</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries-d</td>
<td>75,000</td>
<td>467,000</td>
<td>450,000</td>
<td>17,000</td>
<td>104%</td>
<td>☹☹</td>
<td>900,000</td>
<td>400,000</td>
<td>67,000</td>
<td>117%</td>
</tr>
<tr>
<td>Contract personnel-d</td>
<td>5,000</td>
<td>30,000</td>
<td>30,000</td>
<td>-</td>
<td>100%</td>
<td></td>
<td>60,000</td>
<td>2,000</td>
<td>28,000</td>
<td>1500%</td>
</tr>
<tr>
<td>Fringe benefits-d</td>
<td>21,000</td>
<td>122,003</td>
<td>122,000</td>
<td>3</td>
<td>100%</td>
<td>☹☹</td>
<td>244,000</td>
<td>101,222</td>
<td>20,781</td>
<td>121%</td>
</tr>
<tr>
<td>Contracted services-e</td>
<td>2,770</td>
<td>14,002</td>
<td>15,000</td>
<td>(998)</td>
<td>93%</td>
<td></td>
<td>30,000</td>
<td>29,600</td>
<td>(15,998)</td>
<td>47%</td>
</tr>
<tr>
<td>Supplies-e</td>
<td>1,400</td>
<td>8,400</td>
<td>9,300</td>
<td>(900)</td>
<td>90%</td>
<td></td>
<td>18,600</td>
<td>9,000</td>
<td>(600)</td>
<td>93%</td>
</tr>
<tr>
<td><strong>TOTAL EXPENSES</strong></td>
<td>105,170</td>
<td>641,405</td>
<td>626,300</td>
<td>(15,105)</td>
<td>102%</td>
<td></td>
<td>1,252,600</td>
<td>541,822</td>
<td>99,583</td>
<td>118%</td>
</tr>
<tr>
<td><strong>SURPLUS (DEFICIT)</strong></td>
<td>($8,135)</td>
<td>($65,205)</td>
<td>($1,200)</td>
<td>($64,005)</td>
<td></td>
<td></td>
<td>-</td>
<td>$45,278</td>
<td>($10,483)</td>
<td></td>
</tr>
</tbody>
</table>
Measuring / Accountability

- About the faces ..... Wingdings font (in Office 2010)
  - J – 😊
  - K – 😐
  - L – 😕

- 😊 Use for positive trends that are expected to continue throughout the fiscal year.
- 😕 – Use for negative trends that are expected to continue throughout the year.
- 😐 – Use for offsetting revenue/ expense lines, or for variances that are expected to reverse because of
  - Seasonality issues (such as tax season client payments)
  - Irregular payment streams that are budgeted evenly – such as grant payments that are booked on cash basis but budgeted evenly.
Measuring / Accountability

What kinds of questions?

Grants –

*Are numbers on cash or accrual basis?*

- Many different payment cycles for different funders. Some pay 100% at beginning, some pay quarterly, some pay monthly.
- *Cash basis* would mean that revenue is recorded at 100% when funder makes payment.
  - This creates skewed numbers which make it hard to gauge how the organization is doing.
- *Accrual basis* means, regardless of when the funder makes payment, a piece of revenue is recorded each month throughout grant period. (Highly recommend this model).

- *Are there any grants that are ending soon? How will the agency sustain the program costs?*
Measuring / Accountability

What kinds of questions?

- **Program fees:**
  - *Is revenue reflected when service is billed (accrual) or when client or insurer makes payment? (Most agencies use this, cash basis).*
    - If revenue is reflected when service is billed, are allowances for uncollectible up to date?
  - **How seasonal are program fees?**
    - Example: most agencies see collections increase during tax season.
    - If they are, do the monthly budgets reflect seasonality, or are they 1/12th of total each month?
  - *Do we know how much Medicaid / insurance is still not collected because of software conversion? Is this reflected in the revenue number?*

- **Investment income / interest**
  - *Please describe where agency funds are invested.*
    - These days interest income is 😞, so if investment income is high, possibly indicates higher risk portfolio.
Measuring / Accountability

What kinds of questions?

Expenses:

- **Salaries** (by far the largest expense in our business).
  - *When was the last staff pay increase? How much was it?*
  - *Do you pay bonuses (depending on how they are structured, can jeopardize tax exempt status)?*
  - *Do you use a payroll service, or is payroll done in-house?*
  - *Which payroll service do you use? (Wide cost variance)*
  - *Are payroll taxes deposited every pay period / on time?*
    - *personal criminal liability for not complying*
Measuring / Accountability

What kinds of questions?

- **Independent Contractor payments**
  - *Please tell me about the kinds of positions that are paid as contractors.*
  - *Does the agency send 1099 forms to all Independent Contractors?*
  - This is a hot-button issue on the IRS’s and Unemployment Commission’s part. They don’t want to see workers that should be on payroll paid as contractors.
  - Contractors, in general, should be persons who hold themselves out to the public as a business. See IRS guidelines.
  - Keystone was audited by unemployment commission who asked for contracts and information on all costs recorded as contractors.
## Audit Report Language

<table>
<thead>
<tr>
<th>FOR PROFIT</th>
<th>NOT-FOR-PROFIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>Cash!</td>
</tr>
<tr>
<td>Balance Sheet</td>
<td>Statement of Net Assets</td>
</tr>
<tr>
<td>Income Statement/ P&amp;L</td>
<td>Statement of Activities</td>
</tr>
<tr>
<td>Equity/ Retained Earnings</td>
<td>Statement of Net Assets</td>
</tr>
<tr>
<td>Statement of Cash Flows</td>
<td>Statement of Cash Flows</td>
</tr>
<tr>
<td>Profit/ Loss</td>
<td>Surplus/ Deficit</td>
</tr>
</tbody>
</table>
Audits/ Reports

- Opinions
  - Financial statement
  - Governmental accounting standards
  - Major federal grants

- Timeliness: due to DAODAS by December 31.

- Reconciliation to staff finance report. If the bottom line in the audit is significantly different from the last P&L staff gave to the board, ask why.

- Management letters.
  - Review management response.
  - Review for repeated management letter comments from year to year.
What Audits are NOT

- Guarantee there are no errors
- Guarantee there is no fraud
- Guarantee there has been no theft
- 100% examination of transactions during the year.
What Audits ARE

- Fraud: Auditors will evaluate for risk of fraud, be on watch for evidence fraud, and will report their findings.
- Financial statements “Are the responsibility of management.”
- Errors: An audit is planned and performed to “obtain reasonable assurance that the financial statements are free of material misstatements”.
- Audit coverage: Auditor look at a sample of transactions to test internal controls.
  - If 2000 checks are issued in a year, as few as 25 might be inspected. Testing is expanded when errors in initial sample are found.
Accountability: Good Corporate Citizens

IRS Form 990.
- Should be made available to all board members to review before filing.
  - Finance committee members should give affirm their review in writing.
  - 990 includes statement on how Board of Director reviews and approves the 990.
- It’s posted online at Guidestar.org
  - Searchable database of all 990s filed in US.
  - Create an account and take a look!
Accountability: Good Corporate Citizens

- IRS Form 990. Four key pages:
  - **Snap shot – Page 1.** Contains basic info. Quick look at mission and financial info.
  - **Accomplishments – Page 2.** Will be seen by government and potential donors. Would it persuade you to make a donation?
  - **Required schedules – Page 3.** Is it complete?
  - **Governance and management disclosures – Page 6.** Asks about best practice policies “not required by IRS”. Can be red flags for audits if answered ‘no’, and are often reviewed by potential donors.
    - Conflict of interest
    - Records retention/ destruction
    - Whistleblower protection
    - Executive compensation policy
SC Secretary of State Database

YORK COUNTY COUNCIL ON ALCOHOL AND DRUG ABUSE

Public Id: P1328
Ms. Janet Martini, CEO
199 S. Herlong Ave.
Rock Hill, SC 29732

Status: Registered: Information from this organization's annual financial report is listed below.

The following financial information has been provided to the Secretary of State's Office by the above named organization. The Secretary of State's Office has not independently verified this financial information if a charity has recently registered with the Secretary of State's Office for the first time, there may not be any financial data available. Below are figures for the organization's fiscal year 7/1/2011 - 6/30/2012.

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL REVENUE</td>
<td>$4,441,543.00</td>
</tr>
<tr>
<td>PROGRAM EXPENSES</td>
<td>$3,631,782.00</td>
</tr>
<tr>
<td>TOTAL EXPENSES</td>
<td>$4,330,136.00</td>
</tr>
<tr>
<td>NET ASSETS</td>
<td>$2,136,217.00</td>
</tr>
<tr>
<td>FUNDRAISER COSTS</td>
<td>$67,687.00</td>
</tr>
</tbody>
</table>

According to the financial information filed with this office, this organization devoted 83.9% of its total expenses to program services during the year reported.
Good Resources for Board Members

- SCANPO.org: South Carolina Association of Non Profit Organizations.
- Guidestar.org. Searchable database, plus email newsletters.
- Boardsource.org
- IRS: Exempt Organization Update – email news updates with links to information and trainings.
  - Current issue announces teleconference on Jan 23rd at 2 pm: “Good Governance Makes Sense for Exempt Organizations”
- GOOGLE …
Questions?

- Slides on BHSA website
- My contact information – Sfitzpatrick @ keystoneyork.org
- I’m on Linked In …

Thank you!