

**A TRUSTEE'S GUIDE TO FINANCE:
THE BASICS OF GOVERNANCE AND FINANCIAL
MANAGEMENT OF NONPROFIT ORGANIZATIONS**

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Objectives

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At the end of this session, you will be able to:

- Summarize the key financial responsibilities of executives and the key role of finance committee
- Summarize key financial reporting to expect from finance office
- Review a typical non-profit's financial statement to be able to understand key components
- List and review key ratios for a nonprofit organization
- Summarize other key financial responsibilities such as working with auditors, internal controls, etc.



Introduction

Laying the groundwork – why are finances important?

Introduction

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- Business world is growing more complex
- This is placing more pressures on management and boards to perform at high levels
 - Investors, stakeholders, competitors, customers, constituents, donors
- Nonprofits try to remain aware of mission
- Finances play an important role
 - Will determine the pace at which an organization advances its mission
- It's important to understand financial matters

Introduction

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- Underlying questions:
 - Do we know where we're going?
 - Is it where we want to go?
 - Can we afford it?
 - Are we prepared for change?



Key Financial Responsibilities

Executives and Finance Committee

Key Financial Responsibilities: Executives and Management

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- Basic Responsibilities
 - Management is accountable to the board of directors as a matter of legal responsibility
 - Management is responsible to follow recognized standards of conduct. These standards require officers with discretionary authority to act in good faith, with the care of an ordinarily prudent person, and in the best interests of the Organization
 - Develop the workplans that will facilitate the implementation of the strategic plan. This includes the tasks to be done, lead staff person or unit, resources needed, timelines and expected outcomes.
 - Recruit, train, supervise and mentor staff, supporting in the implementation of the strategic plan/organizational purpose
 - Develop and deliver patient/client services to ensure that services outcomes are consistent with the mission and the strategic plan
 - Provide all human resources management to ensure that qualified staff are hired and supervised to provide both the client services and the administrative and property support services

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Key Financial Responsibilities: Executives and Management

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- Basic Responsibilities, continued
 - Ensure that the organizational structure and staffing model is appropriate for the work to be done
 - Provide financial management, including budget preparation, financial reporting and regulatory reporting, ensuring all reports are submitted in compliance with regulatory requirements
 - Establish and maintain internal controls, understand and assess risk and conduct monitoring activities
 - Manage day to day operations
 - Safeguard the Organization assets
 - Ensure Organization compliance with law and regulations
 - Provide analysis and support to the board providing it with regular process reports on the strategic plan, emerging issues, proposals for new initiatives, financial position, operating issues and fundraising activities and results
 - The board must delegate enough power to permit an effective administration of daily operations

Key Responsibilities: Board of Trustees/Directors

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- Basic Responsibilities
 - Determination and support of the Organization's mission and purpose
 - Reviewing the Organization's effectiveness in satisfying its charitable mission
 - Selecting the chief executive
 - Supporting the chief executive and assessing his or her performance
 - Ensuring legal and ethical integrity and maintaining accountability and transparency
 - Ensuring effective organizational planning
 - Ensuring adequate resources
 - Managing resources effectively
 - Monitoring the Organization's programs and service accomplishments
 - Enhancing the Organization's public image
 - Recruiting new board members and assessing the board's own performance

Key Financial Responsibilities: Finance Committee

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- **Finance Committee Member Skill Sets**
 - Understanding of business, accounting, finance
 - Bankers, investment managers/planners, accountants, attorneys, business people, other nonprofit executives, other
- **Finance Committee Duties**
 - Oversees finance-related matters, such as budget, tax and investment issues
 - Oversees the preparation of the annual budget and monthly financial statements
 - Oversee the administration, collection and disbursement of the financial resources of the organization. Advise the board with respect to making significant financial decisions
 - Evaluate financial statements, budgets and results, policies, approval of transactions, evaluate management's competence in managing finances, risks, investments
 - Self evaluation

Key Financial Responsibilities: Finance Committee

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- **Shared Responsibilities of the Audit and Finance Committees**
 - The finance committee ensures that budgets and financial statements are prepared; the audit committee has oversight for ensuring that reports are received, monitored and disseminated appropriately
 - The finance committee monitors financial transactions; the audit committee makes sure things are done according to policy and with adequate controls
 - The finance committee provides guidance about what can be done; the audit committee ensures that independent oversight occurs



Financial Reporting

Basics of Financial Statements

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Financial Reporting

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- **Financial Reporting Overview**

- The objectives of financial reporting for nonprofit organizations differ from those of business enterprises.
- The primary objective of financial reporting for business enterprises is to provide information about an enterprise's performance, as measured by earnings.
- The objectives of external financial reporting for nonprofit organizations are to:
 - Communicate the ways resources have been used to meet the organization's objectives and external requirements.
 - Identify the organization's principal programs and their costs.
 - Disclose the degree of control exercised by donors and funding sources over use of resources.
 - Help the user evaluate the organization's ability to carry out its fiscal objectives.

Financial Reporting

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An organization's internal reporting objectives may be different.

Users of Financial Statements


- The following groups are the most common users of nonprofit organization financial statements:
 - Governing boards (board of trustees or directors).
 - Funding sources and contributors to the organization.
 - Organization management and employees.
 - Regulatory agencies.
 - Creditors and potential creditors.
 - Affiliate organizations, such as a local chapter of a national organization.

Financial Reporting

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- Financial Reporting
 - Monthly or with each Meeting
 - Executive report – verbal / narrative from the CFO articulating the happenings of the organization since the last meeting
 - Key operating report
 - Financial ratios, Financial margins, Statistics, Trends
 - Statement of operations
 - Consolidated, By division/entity, Trends, Comparison to budget / prior year
 - Statement of financial position (Balance sheet)
 - Consolidated, Trend (13 month)
 - Cash flow statement,
 - Direct or indirect, Current month / year to date, Trend and forecast
 - Accounts receivable summaries
 - By entity, By payor, By aging
 - Capital budget summary
 - Approved, Incurred, Balance, Emergency items

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Financial Reporting

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- Financial Reporting, continued
 - Footnotes providing “salient points” for each report supporting/explaining significant variances and/or trends from period to period or from budget
 - Incorporate charts and graphs to display certain ratios, trends, operating results and financial position
 - Financial statements should be self explanatory with verbal comments to educate the users and engage in discussion on specific issues and concerns related to the report
 - Quarterly
 - Bank required reports
 - Annually
 - Audited financial statements
 - Tax returns
 - Cost reports
 - State annual report and other required filings
 - Abandoned property report
 - Other tax filings

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Financial Statements Basics

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Basis of Accounting

- **Generally Accepted Accounting Principles** To best achieve the objectives of financial reporting and to inform financial statement users, prepare the organization's financial statements in accordance with *generally accepted accounting principles* (GAAP). Preparing financial statements in accordance with GAAP is strongly recommended for several reasons:
 - Many third-party users of financial statements lose confidence in those statements if they spot a departure from GAAP.
 - In most cases, GAAP reflects economic reality. A material departure from GAAP may cause the financial statements to be misleading.
 - Financial statements prepared in conformity with GAAP indicate a level of professional competence that most nonprofit organizations value.

Financial Statements Basics

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Basis of Accounting, continued

Cash Basis of Accounting While GAAP basis financial statements are preferable for external financial statements, some nonprofit organizations maintain their accounting records on either the cash or modified cash basis. Many organizations then convert those accounting records to GAAP-basis financial statements at year-end

Basic Financial Statements

- The basic financial statements for a nonprofit organization required by GAAP are as follows:
 - Statement of financial position (balance sheet).
 - Statement of activities (revenue and expenses).
 - Statement of cash flows.
 - Statement of functional expenses (required for voluntary health and welfare organizations only).
 - Footnotes

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Financial Statements Basics

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Voluntary Health and Welfare Organizations

- The definition emphasizes that voluntary health and welfare organizations
 - (a) derive revenue from voluntary contributions from the general public (which does not include support from governmental entities) and
 - (b) are involved with health, welfare, or community services.
 - If an organization primarily receives support either from membership fees or dues (exchange transactions) or from government grants (not the general public) would not meet the first piece of the definition.
 - If an organization has purpose besides health, welfare, or community service, it would not meet the second piece of the definition.
 - For example, a school has an educational purpose and thus would not be considered a voluntary health and welfare organization.

Financial Statements Basics

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- Underlying questions:
 - Do we know where we're going?
 - Is it where we want to go?
 - Can we afford it?
 - Are we prepared for change?
- How do financial statements answer these questions?
 - Financial Position – a snapshot – what's our strength today?
 - Statement of Activities – what have we done this period, and how are we doing?
 - Statement of Cash Flows – what does cash flow look like?
 - Statement of Functional Expenses – how are we spending money?
 - Footnotes – what other matters are relevant to understand?

Let's take a look at examples...

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Financial Statements Basics

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Folsom Performing Arts Center Statement Of Financial Position March 31, 20x7

ASSETS

Cash and cash equivalents	\$96,398
Unconditional promises to give, net	96,097
Inventory	197,137
Property and equipment, at cost or fair value at date of donation	15,821,675
Unconditional promises to give, restricted for long-term purposes	458,870
Investments	223,843
Other assets	<u>66,824</u>
TOTAL ASSETS	\$16,960,844

LIABILITIES

Accounts payable	\$433,695
Accrued and other liabilities	126,399
Deferred revenue—ticket sales	1,031,484
Capital lease obligations	27,234
Long-term debt	<u>2,052,243</u>
TOTAL LIABILITIES	3,671,055

NET ASSETS

Unrestricted	12,040,697
Temporarily restricted	<u>1,249,092</u>
TOTAL NET ASSETS	<u>13,289,789</u>

TOTAL LIABILITIES AND NET ASSETS \$16,960,844

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Financial Statements Basics

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Folsom Performing Arts Center
Statement Of Activities
For The Year Ended March 31, 20x7

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Operating revenue:			
Admissions	\$2,674,493	\$ —	\$2,674,493
Concessions and other support	388,014	—	388,014
Donated materials and facilities	328,832	—	328,832
Interest income	<u>11,192</u>	<u>—</u>	<u>11,192</u>
TOTAL OPERATING REVENUE	3,402,531	—	3,402,531
Operating expenses:			
Production costs	5,055,337	\$ —	5,055,337
Supporting services:			
General and administrative	<u>968,145</u>	<u>—</u>	<u>968,145</u>
TOTAL OPERATING EXPENSES	<u>6,023,482</u>	<u>—</u>	<u>6,023,482</u>
LOSS FROM OPERATIONS	(2,620,951)	—	(2,620,951)
Contributions	1,700,912	65,000	1,765,912
Donated equipment	—	600,000	600,000
Donated services	46,355	—	46,355
Net assets released from restrictions:			
Restrictions satisfied by payments	<u>363,904</u>	<u>(363,904)</u>	<u>—</u>
	2,111,171	301,096	2,412,267
Fundraising expenses	<u>441,728</u>	<u>—</u>	<u>441,728</u>
	<u>1,669,443</u>	<u>301,096</u>	<u>1,970,539</u>
CHANGE IN NET ASSETS	(951,508)	301,096	(650,412)
NET ASSETS, beginning of year	<u>12,992,205</u>	<u>947,996</u>	<u>13,940,201</u>
	\$12,040,697	\$1,249,092	\$13,289,789

NET ASSETS, end of year
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Financial Statements Basics

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Folsom Performing Arts Center Statement Of Cash Flows For The Year Ended March 31, 20x7

CASH FLOWS FROM OPERATING ACTIVITIES

Decrease in net assets	\$ (650,412)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:	
Depreciation and amortization	583,418
Donated equipment	(600,000)
Contributions restricted for long-term purposes	(65,000)
Decrease in unconditional promises to give	215,581
Decrease in inventory	33,856
Decrease in other assets	113,902
Increase in accounts payable	154,084
Decrease in accrued and other liabilities	(23,568)
Increase in deferred revenue—ticket sales	<u>197,750</u>

NET CASH USED IN OPERATING ACTIVITIES (40,389)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of property and equipment	(69,905)
Proceeds from sale of investments	<u>3,500</u>

NET CASH USED IN INVESTING ACTIVITIES (66,405)

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from contributions restricted for investment in property and equipment	65,000
Proceeds from borrowings	579,478
Repayments of debt and capital leases	<u>(627,153)</u>

NET CASH PROVIDED BY FINANCING ACTIVITIES 17,325
NET DECREASE IN CASH AND CASH EQUIVALENTS (89,469)

CASH AND CASH EQUIVALENTS, beginning of year

185,867

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CASH AND CASH EQUIVALENTS, end of year

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98,398



Financial Statements Basics

The Warm Place, Inc.
 Statement Of Functional Expenses
 For The Year Ended June 30, 20x7

	Program Services		Supporting Services		Total
	Women and Children	Men	Management and General	Fundraising	
Compensation and related expenses					
Compensation					
Full-time	\$27,530	\$26,049	\$31,579	\$7,894	\$93,052
Part-time	42,531	41,316	7,141	—	90,988
Employee benefits					
Medical	2,020	1,010	861	189	4,080
Other	94	108	254	43	499
Payroll taxes	<u>5,354</u>	<u>5,200</u>	<u>2,926</u>	<u>731</u>	<u>14,211</u>
	77,529	73,683	42,761	8,857	202,830
Conferences and training	215	144	502	—	861
Depreciation	20,644	—	2,534	634	23,812
Food	3,039	76	—	—	3,115
Insurance					
Property and casualty	1,295	515	—	—	1,810
Vehicles	3,785	—	—	—	3,785
Worker's compensation	—	—	1,548	387	1,935
Interest	—	—	248	—	248
Maintenance of equipment	324	—	733	—	1,057

Financial Statements Basics

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The Warm Place, Inc.
Statement Of Functional Expenses, continued
For The Year Ended June 30, 20x7

	Program Services		Supporting Services		Total
	Women and Children	Men	Management and General	Fundraising	
Occupancy					
Electricity	10,964	1,715	975	243	13,897
Gas	1,081	601	105	15	1,802
Heating oil	—	2,054	—	—	2,054
Maintenance	3,449	938	371	24	4,782
Rent	—	8,388	—	—	8,388
Water and sewer	1,502	1,282	135	32	2,951
Postage	68	39	997	996	2,100
Printing	434	138	968	1,450	2,990
Specific assistance	1,012	274	—	—	1,286
Supplies					
Cleaning	3,271	2,243	—	—	5,514
Office	357	365	1,779	432	2,933
Other	971	14	303	27	1,315
Telephone	2,293	874	581	387	4,135
Transportation					
Fuel	409	208	—	—	617
Repairs and other	1,385	680	869	—	2,934
Other	<u>24</u>	<u>—</u>	<u>220</u>	<u>57</u>	<u>301</u>
	\$134,051	\$94,231	\$55,629	\$13,541	\$297,452

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Financial Statements Basics

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Internal Financial Statements

- Financial statements are usually prepared by nonprofit organizations for their own use as well as for external use.
- Usually prepared monthly and in a variety of different formats.
- May not be prepared using GAAP or the accrual basis, and may present different information than the statements required by GAAP.
- When preparing internal financial statements, four important questions should be answered:
 - For what purposes will the financial statements be used?
 - What basis of accounting will be used to prepare the statements?
 - How often will financial statements be generated?
 - What statements will be prepared and in what forms?

Financial Statements Basics

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Internal Financial Statement Uses

- Often used for different purposes than those prepared for external use.
- Primary readers of internal financial statements are the management and board of the nonprofit organization,
 - Need for information different other than that required by GAAP.
- Internal financial statement information may be used to:
 - Monitor revenue, support, and expenses, and compare them to prior periods and budgeted amounts.
 - Plan additional programs and services for the current year or future years or reduce programs and services, depending on the actual and anticipated financial condition of the organization.
 - Determine whether additional fundraising activities may be necessary.

Financial Statements Basics

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Internal Financial Statement Uses, continued

- Analyze the results of a particular program, activity, or grant.
- Determine management's ability to use funds effectively and efficiently to meet the goals of the organization.
- The most important consideration in preparing internal interim financial statements is to find out what information is needed so that information is meaningful.
- Management should be comfortable with the internal information they receive.
- The statements should be as simple and understandable as possible while presenting information sufficient for use in making financial decisions.

Financial Statements Basics

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Internal Financial Statement Uses, continued

- If the internal financial statements do not contain that information, disastrous results may occur.
 - For example, if the organization has depleted its reserve fund, expenses are significantly higher than budgeted, or revenues are lagging, the organization might not have funds on hand to achieve its goals. Only complete and accurate internal financial statements can provide adequate information for those decisions.
- Above all, do not attempt to sugarcoat or suppress bad financial results in the internal financial statements.

Financial Statements Basics

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Basis of Accounting

- Internal financial statements sometimes prepared on the cash basis, reflecting revenue only when cash is received and expenses when they are paid.
- Cash basis financial statements do not include unpaid bills or receivables, such as a promises to give receivable.
- Consequently, the cash basis may understate or overstate net assets.
- Including additional schedules of accounts payable and promises receivable with cash basis financial statements may disclose sufficient information to assess the possible impact of those items on net assets.
- Accounting staff should be sophisticated enough to jump back and forth between bases.

Financial Statements Basics

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Basis of Accounting, continued

- If cash basis is used consistently and the amount of funds raised and expended does not change dramatically from year to year, the net effect between GAAP-basis and cash-basis financial statements might be negligible.
- However, a growing organization might find that the cash basis of accounting does not provide enough information quickly enough to properly manage the organization.
- Thus, generally not a recommended approach.
- Some prefer the modified cash basis
 - Cash basis financial statements are adjusted for certain items such as depreciation, accounts receivable, or accounts payable.
- Full accrual basis may be used if making adjustments and accruals at the end of each reporting period minimizes errors or saves time at year end or if management prefers that basis.

Financial Statements Basics

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Basis of Accounting, continued

- If the organization prepares external financial statements in accordance with GAAP, questions may arise if the internal financial statements are prepared on cash or the modified cash basis.
- Limit problems or questions from board members reviewing the internal financial statements by either (a) using GAAP for the internal financial statements or (b) educating the board members on the differences in the bases of accounting.

Financial Statements Basics

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Frequency

- Internal financial statements are generally prepared monthly, bimonthly, or quarterly.
- They should be prepared in a timely manner so that management can base decisions on current information.
 - A reasonable length of time for preparation would be 15 to 20 days after the end of the reporting period.
- If possible, the board of directors should plan its meetings shortly after that date to review actual results of activities and compare those results to the budget.
- Monitoring financial results is especially important if organization is experiencing cash flow problems or if there are matching requirements for grant awards that must be met within a specified time period.

Financial Statements Basics

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Statements and Formats

- Though not recommended, internal financial statements often do not consist of a complete set of financial statements.
- Some organizations prefer to present only an operating statement. Others present both a statement of assets, liabilities, and net assets and an operating statement.
- Some organizations present a statement of cash receipts and disbursements
- Statements of cash flows or functional expenses and notes to the financial statements are seldom included.

Financial Statements Basics

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Statements and Formats

- Consider whether the following reports or schedules would be helpful to management and the board of directors:
 - A schedule of cash balances in various bank accounts to assess adequacy of cash balances.
 - A list of investments held can assist in determining whether assets are invested appropriately and in assessment of the resulting investment returns.
 - A comparison of budgeted to actual results for individual projects, operating units, or grants can assist in monitoring potential problems with revenue shortfalls, cost overruns, etc.
 - A schedule showing service units provided to service recipients, possibly including a comparison of budgeted units to actual results can show the organization whether its service goals for the year are being met.

Financial Statements Basics

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Statements and Formats, continued

- A schedule comparing service fee revenue earned versus service fees actually collected highlights collection problems. An aged accounts receivable listing can assist too.
- A projected cash flow worksheet emphasizes whether the organization will have cash on hand to meet its financial obligations. Because the primary expense for many organizations is payroll it is vital that organizations are able to meet their payrolls.
- A report on the status of grants and fundraising efforts can provide detailed information on grants and contributions received, outstanding fundraising campaigns, etc.

Financial Statements Basics

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Operating Statement Formats

- Internal operating statements may be presented in any number of different formats.
- One common display shows current month actual and year-to-date actual amounts to assess current and year-to-date activities.
- Other formats show comparative columns, such as:
 - A comparison of **year-to-date actual to year-to-date budgeted** amounts (and the variance from budgeted amounts, if desired).
 - A comparison of current **year-to-date actual to prior year-to-date actual** amounts (and a column for variances, if desired).
 - A comparison of **year-to-date actual amounts to the annual budget**, with a third column for the unexpended budget remaining or the percentage of the annual budget received or spent.
 - A comparison of audited vs. unaudited balances (and a column for variances)
 - A combination of any of those formats

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Financial Statements Basics

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Internal financial Statements

- **Budget to actual information** is essential, as it serves as the vital point of reference in judging the results of activities.
- A comparison is important to show deviations from planned results.
 - The reasons for such deviations can be explored to determine the actions necessary to keep them from recurring.
 - Could also bring to light errors that need to be corrected.
 - This type of presentation can also help to determine the results of a particular program, activity, or grant.

Financial Statements Basics

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Internal financial Statements, continued

- A comparison of current **year-to-date actual to prior year-to-date actual** amounts shows deviations from past experience.
 - Deviations are not necessarily bad, as the organization may have significantly changed its focus or the programs or services it provides in the current year.
 - If that is not the case, the reason for major variances between the years should be investigated and explained, possibly in an additional schedule included with the financial statements.
- The accountant, executive director, and program directors should work together to ensure that significant variances can be explained.
- Many organizations include a narrative discussing the variance in their monthly reporting package to the board.

Financial Statements Basics

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Internal Financial Statements, continued

- Non-GAAP financial statements are usually titled differently so as not to mislead the reader into assuming they are GAAP basis financial statements. Suggested titles may be:
 - Statement of Cash Receipts and Disbursements.
 - Operating Statement—Budget and Actual—Cash Basis.
 - Statement of Assets, Liabilities, and Net Assets—Cash Basis.

Financial Statements Basics

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ABC Organization

Statement Of Assets, Liabilities, And Net Assets—Cash Basis (Unaudited)

March 31, 20X7

Notes: If management is interested in the balance of any board-designated net assets, unrestricted net assets could be further broken down and both “Undesignated” and “Board designated” net asset amounts could be presented. In addition, the specific designations could be reported; for example, “Designated for capital improvements.”

	<u>Current Year</u>	<u>Prior Year</u>	<u>Increase (Decrease)</u>
ASSETS			
Cash	\$5,107	\$18,295	(\$13,188)
Promises to give receivable less allowance for uncollectible accounts of \$5,600 and \$4,800	55,690	43,000	12,690
Prepaid expenses	4,053	5,856	(1,803)
Investments	136,052	93,918	42,134
Property and equipment at cost less accumulated depreciation of \$39,604 and \$32,966	<u>18,627</u>	<u>15,430</u>	<u>3,197</u>
TOTAL ASSETS	\$219,529	\$176,499	\$43,030
LIABILITIES			
Accounts payable	\$189	\$6,528	(\$6,339)
Payroll taxes payable	1,306	1,430	(124)
Notes payable	<u>66,302</u>	<u>72,231</u>	<u>(5,929)</u>
TOTAL LIABILITIES	67,797	80,189	(12,392)
NET ASSETS			
Unrestricted ^a	103,293	55,065	48,228
Temporarily restricted	41,515	37,242	(4,273)
Permanently restricted	<u>6,924</u>	<u>4,003</u>	<u>(2,921)</u>
TOTAL NET ASSETS	<u>151,732</u>	<u>96,310</u>	<u>55,422</u>
TOTAL LIABILITIES AND NET ASSETS	\$219,529	\$176,499	\$43,030

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Financial Statements Basics

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DEF Organization

Operating Statement—Budget And Actual—Cash Basis

For The One Month And Nine Months Ended September 30, 20x7

	Current Month Actual	Year-to-date Actual	Annual Budget	% to Date	Remaining Budget Balance
SUPPORT AND OTHER REVENUES					
Support					
United Way	\$3,833	\$34,500	\$46,000	75%	\$11,500
Memorials	—	650	—	—	(650)
Individual contributions	5,984	36,915	72,000	51%	35,085
Foundations and trusts	4,500	40,500	54,000	75%	13,500
Special events	<u>20,484</u>	<u>20,484</u>	<u>16,000</u>	<u>128%</u>	<u>(4,484)</u>
TOTAL SUPPORT	<u>34,801</u>	<u>133,049</u>	<u>188,000</u>	<u>71%</u>	<u>54,951</u>
Other revenues					
Client fees	6,720	56,025	76,300	73%	20,275
Interest and investment income	<u>527</u>	<u>4,411</u>	<u>3,500</u>	<u>126%</u>	<u>(911)</u>
TOTAL OTHER REVENUES	<u>7,247</u>	<u>60,436</u>	<u>79,800</u>	<u>76%</u>	<u>19,364</u>
TOTAL SUPPORT AND OTHER REVENUES	<u>42,048</u>	<u>193,485</u>	<u>267,800</u>	<u>72%</u>	<u>74,315</u>
EXPENSES					
Salaries	15,150	134,222	182,000	74%	47,778
Employee benefits	3,788	31,800	40,040	79%	8,240
Travel	1,384	2,488	5,000	50%	2,512
Rent	1,333	11,000	16,000	69%	5,000
Utilities	617	5,512	7,200	77%	1,688
Telephone	268	2,196	2,800	78%	604
Supplies	339	988	1,400	71%	412
Printing	787	1,112	1,600	70%	488
Postage	612	1,025	800	128%	(225)
Insurance	683	6,150	8,200	75%	2,050
Repair and maintenance	—	409	760	54%	351
Other	<u>268</u>	<u>1,648</u>	<u>2,000</u>	<u>82%</u>	<u>352</u>
TOTAL EXPENSES	<u>25,229</u>	<u>198,550</u>	<u>267,800</u>	<u>74%</u>	<u>\$69,250</u>
EXCESS (DEFICIENCY) OF SUPPORT AND OTHER REVENUES OVER EXPENSES	16,819	(5,065)	\$ —		

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Key Ratios

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Committee Responsibility

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- Finance Committee
 - Dashboard with key ratios and operational drivers
 - How frequent? Probably more frequently for C-suite, and produce for finance committee as often as it meets
 - Balance sheet ratios and stats – cash balances, liquidity, debt, age of plant, upcoming cash needs
 - Income statement ratios – EBIDA, debt service ratio, margins, key costs as % of revenues
 - Other – key operational drivers – new customers/constituents/patients, occupancy, FTE's,
 - Problems that are being addressed – if overtime has been high, add stats to dashboard
 - Benchmarking – comparison to external data and/or internal goals or metrics
 - Ratios help make the financial statements meaningful, an efficient way to interpret financial matters and some key performance indicators to track

Ratios – Sample Report

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OTHER FINANCIAL INFORMATION:

	<u>12/31/09</u>		<u>12/31/10</u>		<u>Change \$</u>	<u>Change %</u>
Accounts receivable, patients	1,896,334	100.00%	- #DIV/0!		(1,896,334)	-100.00%
Allowance for doubtful accounts	<u>(312,572)</u>	<u>-16.48%</u>	<u>- #DIV/0!</u>		<u>312,572</u>	<u>-100.00%</u>
Net accounts receivable	<u>1,583,762</u>	<u>83.52%</u>	<u>- #DIV/0!</u>		<u>(1,583,762)</u>	<u>-100.00%</u>
Routine patient service revenue	28,655,922	90.80%	29,236,797	90.79%	580,875	2.03%
Ancillary patient service revenue	2,902,188	9.20%	2,965,962	9.21%	63,774	2.20%
Contractual allowances & rate adjustments	<u>(6,035,852)</u>	<u>-19.13%</u>	<u>(6,544,857)</u>	<u>-20.32%</u>	<u>(509,005)</u>	<u>8.43%</u>
	<u>25,522,258</u>	<u>80.87%</u>	<u>25,657,902</u>	<u>79.68%</u>	<u>135,644</u>	<u>0.53%</u>
Property, plant & equipment	43,510,345	100.00%	43,983,515	100.00%	473,170	1.09%
Accumulated depreciation	<u>(22,418,263)</u>	<u>-51.52%</u>	<u>(24,003,440)</u>	<u>-54.57%</u>	<u>(1,585,177)</u>	<u>7.07%</u>
Net property, plant & equipment	<u>21,092,082</u>	<u>48.48%</u>	<u>19,980,075</u>	<u>45.43%</u>	<u>(1,112,007)</u>	<u>-5.27%</u>
General and administrative	6,139,724	21.89%	6,602,401	22.97%	462,677	7.54%
Fundraising and development	115,407	0.41%	112,961	0.39%	(2,446)	-2.12%
Program services	<u>21,792,364</u>	<u>77.70%</u>	<u>22,026,677</u>	<u>76.64%</u>	<u>234,313</u>	<u>1.08%</u>
Total Expenses	<u>28,047,495</u>	<u>100.00%</u>	<u>28,742,039</u>	<u>100.00%</u>	<u>694,544</u>	<u>2.48%</u>

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Ratios – Sample Report

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STATISTICAL INFORMATION:	<u>12/31/09</u>	<u>12/31/10</u>	<u>2009 to 2010</u>	
			<u>Variance</u>	<u>Variance %</u>
Patient Days/Visits:				
Nursing home days				
Medicaid	49,942	52,729	2,787	5.58%
Medicare	5,723	4,504	(1,219)	-21.30%
Private and other	16,348	14,481	(1,867)	-11.42%
Total	<u>72,013</u>	<u>71,714</u>	<u>(299)</u>	<u>-0.42%</u>
Number of beds	<u>200</u>	<u>200</u>	<u>-</u>	<u>0.00%</u>
Capacity	<u>73,000</u>	<u>73,000</u>	<u>-</u>	<u>0.00%</u>
Occupancy	<u>98.65%</u>	<u>98.24%</u>	<u>(0)</u>	<u>-0.42%</u>
Admissions	<u>151</u>	<u>159</u>	<u>8</u>	<u>5.30%</u>
Discharges	<u>151</u>	<u>164</u>	<u>13</u>	<u>8.61%</u>
Hospice days	<u>3,014</u>	<u>2,837</u>	<u>(177)</u>	<u>100.00%</u>
Volume Indicators				
Average Daily Census	<u>197</u>	<u>196</u>	<u>(1)</u>	<u>-0.42%</u>
Average Length of stay	<u>477</u>	<u>437</u>	<u>(40)</u>	<u>-8.31%</u>
<u>Nursing staff hours per resident per day</u>				
			<u>State Average</u>	<u>National Average</u>
Number of residents	198	193	104	94
RN hours	47 min	46 min	48 min	36 min
LPN hours	34 min	35 min	48 min	48 min
CNA hours	<u>2 hours 48 min</u>	<u>2 hours 41 min</u>	<u>2 hours 24 min</u>	<u>2 hours 24 min</u>
Total nursing hours	<u>4 hours 09 min</u>	<u>4 hours 02 min</u>	<u>4 hours</u>	<u>3 hours 48 min</u>
<u>Average MMQ score</u>	205.14	207.80	202.10	N/A

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Ratios – Sample Report

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Home Care visits:

			<u>Change</u>	<u>% Change</u>
HHA 1	13,584	16,486	2,902	21.36%
HHA 2	7,996	9,519	1,523	19.05%
Total	<u>21,580</u>	<u>26,005</u>	<u>4,425</u>	<u>20.51%</u>

Assisted living facility resident days:

ALF 1	24,133	22,838	(1,295)	-5.37%
Capacity	27,816	27,740	(76)	-0.27%
Occupancy	<u>86.76%</u>	<u>82.33%</u>	<u>-4.43%</u>	<u>-5.11%</u>

Physician visits

	<u>6,744</u>	<u>6,256</u>	<u>(488)</u>	<u>-7.24%</u>
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	<u>12/31/09</u>	<u>12/31/10</u>	<u>Change</u>	<u>% Change</u>
FTEs				
Nursing Home	232	232	1	0.24%
HHA 1	15	18	4	24.34%
HHA 2	6	6	0	1.74%
Other	39	36	(3)	-6.57%
Other	42	45	3	7.12%
Total	<u>334</u>	<u>339</u>	<u>5</u>	<u>1.42%</u>

Ratios – Sample Report

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RATIOS:

	<u>12/31/09</u>	<u>12/31/10</u>	<u>Peer Group</u>
<u>Liquidity Ratios</u>			
Current ratio	0.84	0.78	2.05
Working capital	(683,900)	(905,263)	910,006
Accounts receivable days outstanding (net)	23	33	45
Days in accounts payable	26	30	13
Days cash on hand	18	8	30
Days cash on hand, all sources	281	283	39

Profitability Ratios

Operating margin	-3.27%	-6.24%	1.02%
Net revenue per FTE	76,352	75,685	59,194
Total margin	-1.77%	-3.73%	1.03%
Total debt/unrestricted net assets	1.65	1.70	5.05
Average age of plant	13.41	15.07	12.39

Nursing Home Per Diem Analysis

	Per Diem	Per Diem	Peer Group
Administrative & General	\$ 56.02	\$ 60.00	\$ 53.41
Capital	14.68	13.52	15.17
Plant/Operations	13.74	13.04	11.96
Dietary	23.13	23.38	20.93
Housekeeping/Laundry	12.34	11.67	11.09
Nursing	113.44	118.39	101.12
Medical Records, Social Services & Activities	6.36	6.17	2.08
Ancillaries	7.06	6.63	28.22
Adult Day Health	28.81	30.49	33.26
Total	<u>\$ 275.58</u>	<u>\$ 283.29</u>	<u>\$ 277.24</u>

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Sample

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Sample Organization Ratio Summary December 31, 2010

Ratio Name	Sample Organization						2010 Median (50%)	
	2010	2009	2008	2007	2006	2005	Single-Site	Multi-site
Liquidity Ratios								
Days in Accounts Receivable	13	15	15	14	13	11	19	21
Days Cash on Hand Ratio	316	437	395	386	376	359	365	305
Capital Structure Ratios								
Debt Service Coverage Ratio	2.20	5.74	4.03	3.24	3.99	2.07	2.6	2.7
Debt Service as a Percentage of Total Operating Revenues and Net Nonoperating Gains and Losses Ratio	6.25%	4.66%	4.69%	4.70%	5.12%	5.80%	9.80%	9.40%
Long-term Debt as a Percentage of Total Capital Ratio	57.21%	45.21%	48.10%	51.62%	52.83%	54.32%	75.40%	82.70%
Average Age of Facility	12.68	11.87	11.19	10.14	9.53	8.92	10.4	11.2
Margin (Profitability) Ratios								
Total Excess Margin Ratio	-2.95%	7.69%	4.87%	-1.05%	-0.34%	-5.05%	5.80%	5.40%
Operating Margin Ratio	-2.35%	-3.07%	-2.43%	-2.80%	-4.87%	-4.67%	2.70%	1.50%
Program Expense Ratio	86%	86%	85%	84%	84%	85%	N/A	N/A
Administrative Expense Ratio	14%	14%	15%	16%	16%	15%	N/A	N/A

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Other Key Responsibilities


Working with Auditors, Oversight, Etc.

Supporting the Board

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- Initial review of matters to bring before entire board
- Board Approvals and Authorizations
 - General
 - Electing board members, officers and CEO
 - All board and committee minutes
 - Bylaw and charter amendments/resolutions
 - Corporate document amendments/resolutions
 - Mission statements
 - Strategic plans/programs
 - Fundraising events/programs
 - Commitments and obligations
 - Borrowing and debt terms
 - Business acquisitions
 - Business dissolution
 - Annual operating budget

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Supporting the Board

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- Board Approvals and Authorizations, continued
 - Annual capital budget
 - Employee benefit amendments/resolutions
 - CEO compensation and benefits
 - Independent auditor Endowment spending policy and amendments
 - Investment policy
 - Material contracts/obligations/commitments
- Operating Expenses
 - Annual budget details
 - Wage adjustments
 - Benefit programs
 - Material contracts
 - Start up/dissolution expenses
 - Material/non-budgeted items
 - Material changes/amendments to budget

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Supporting the Board

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- Board Approvals and Authorizations, continued
 - Capital Expenditures
 - Annual capital budget
 - Emergency non-budgeted items
 - Long term capital projects
 - Board
 - Annual assessment
 - Committee self assessment
 - Annual board evaluation

Audit Committee Responsibility

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- Audit committee role – additional
 - In short, the committee is evaluating processes!
 - Understand control environment and risk management systems
 - Understand and evaluate internal controls for key areas
 - What are the key accounting cycles?
 - What are the processes in place?
 - What are the fraud risks?
 - What are the processing risks?
 - Does the agency have a accounting policies and procedures manual?
 - How is technology used in internal controls? What steps are in place for security?
 - Internal controls over compliance with federal and non-federal awards requirements
 - Understand and evaluate appropriateness of off-balance sheet activities

Audit Committee Responsibility

55

- Audit committee role - additional, continued
 - Understand and oversee the audit process
 - Select the independent audit firm
 - Meet with the audit firm at least twice per year (pre-audit and post audit).
 - Meet with the audit firm in executive session
 - Be prepared to provide concerns and summary of perceived risk areas, including fraud risks, controls risks, transactional and reporting risks/concerns
 - Be prepared to have pre-determined questions for auditors, and make the list available to auditors for more in depth discussions
 - Review draft financial statements & discuss with management and external auditors
 - Discuss required communications with auditors, internal controls findings, Single Audit Reports and any other reports issued by external auditors with external auditors and management
 - Follow up on action plans for findings, etc.

Audit Committee Responsibility

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- Audit committee role - additional, continued
 - Address other matters throughout year, continued
 - Discuss other changes that may impact reporting processes
 - Key acquisitions – how is it being reported?
 - New debt instruments
 - New investment policies
 - Revenue recognition
 - Changes in accounting standards
 - Review footnotes in financial statements
 - Do they make sense?
 - Cover all major issues?
 - Key estimates
 - Understand degree of “aggressiveness” or “conservatism” inherent in estimates
 - Understand what key estimates are included in your financial statements
 - Discuss with auditors
 - Understand the process by which key estimates are calculated and recorded
 - Understand the trends of key estimates to assess whether management is “managing earnings”

Audit Committee Responsibility

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- Audit committee role - additional, continued
 - Address other matters throughout year, continued
 - Status of legal and other key contingencies
 - Meet with attorneys
 - Establish hotline and monitor “whistleblower” submissions and relevant policy protocols
 - Audit committee should be granted authority to engage necessary assistance when necessary
 - Evaluate itself at least annually
 - Audit committee should evaluate necessary skill sets
 - Meet stated objectives of the committee’s charter
 - Establish annual agenda



Conclusion

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Conclusion

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What have we learned?

- Summarized the key financial responsibilities of executives and the key role of finance committee
- Summarized key financial reporting to expect from finance office
- Reviewed a typical non-profit's financial statement to be able to understand key components
- Listed and reviewed key ratios for a nonprofit organization
- Summarized other key financial responsibilities such as supporting board regarding financial decisions, working with auditors, internal controls, etc.

ANY QUESTIONS?



Feeley & Driscoll, P.C.

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Thank you!

W. Karl Baker, CPA

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