

CR-Social Development Commission

Final Audit Report

Community Relations Department Audit

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AUDIT SCOPE & OBJECTIVE

The **scope** of the audit encompassed a review of the management practices; the system of internal controls; policies and procedures pertaining to the donation and fundraising process and compliance with the agency's established policies and procedures. Therefore, this is a limited review audit; therefore the full operations of the Community Relations Department was not reviewed. The audit focused on the policies and procedures as they currently exist and testing of in-kind as well as cash contributions received by either Social Development Foundation (SDF) or Community Relations – Social Development Commission (CR-SDC). The period under review covered January 2010 through March 2011.

Our methodology involved gaining an understanding through narratives, flow charts, industry best practices and matrices. We then gathered evidence to determine if the controls were effective. The Community Relations Department staff and management were interviewed; we reviewed financial records and tested transactions. The audit report is not an appraisal or rating of management.

The overall **objective** of this audit is to provide management and the CR-SDC Board of Commissioners as well as the SDF Board of Directors, those charged with Governance, with the assurance that the donation process, including recording of contributions and acknowledgement for contributions received, are being administered with due diligences and are in compliance with pertinent agency-wide policies and procedures. The following methodology was used in completing the audit:

- Adequate controls exist over the process of constituent setup, maintenance and validation.
- Adequate operating policies and procedures are in place.
- Adequate financial management over the fundraising process and donations (i.e...cash, other assets, etc.) received is in place.
- Donations that exist are valued correctly.
- System access capabilities are commensurate with employee job duties.

The audit was carried out during the period from ***February 2011 to June 2011***. We also researched best practices in charitable giving, as well as included a benchmarking report to be used as a guide for management.

Scope Limitation

As part of testing during this audit, confirmation letters were sent to 65 randomly selected donors. A confirmation has the advantage of obtaining information from sources external to the agency. Information from external sources provides greater assurances of reliability than information from sources within the agency. In this situation the confirmation letters were sent to confirm the amounts donated and it's intended purpose. Several confirmation letters were inadvertently sent to the wrong donor. As a result of this error, letters were not resent due to some concerns both the SDF Board and Audit Director had with the initial set of letters that were mailed. Therefore, a conclusion could not be reached in regards to the testing of the receivables from the 65 selected donors. Only 21 out of 65 letters mailed the audit department received responses. Out of the 21 received only 1 letter returned resulted in an exception.

ORGANIZATION & FISCAL IMPACT

The Social Development Foundation (SDF) was established in 2003 as a 501(c) (3) nonprofit organization for the sole purpose of providing financial support for the programs and initiatives of the Community Relations - Social Development Commission (CR-SDC). The CR-SDC is the Community Action Agency for Milwaukee County and directs over 20 programs, which offer basic services and asset building programs to low-income residents. The Foundation's vision is to generate private-sector support to supplement tax based funding, with the result of enhanced services and a broadened awareness of SDC's mission in the community: Empowering Milwaukee County residents with the resources to move beyond poverty.

Currently, there is one full-time CR-SDC agency employee, the Foundation & Volunteer Manager, dedicated full time to be a liaison between the SDF Board of Directors and CR-SDC. The Foundation & Volunteer Manager reports directly to the Director of Community Relations. The Community Relations Department is located at the 4041 N. Richards Street.

- Provide leadership and management of a comprehensive development program to ensure that annual and long-range contributed income significantly advances the strategic long range plans of the SDF.
- Inspire allegiance by raising the profile of the SDF in the community.
- Plan, coordinate and launch various campaigns to generate donations consistent with the stand and policies of the SDF.
- Solicit in-kind donations and the agency's Wish List. Assume primary responsibility for coordinating the agency's Gift in-kind donations.
- Coordinate and manage all aspects of SDF planning, which includes attending events and board meetings.
- Write sponsorship proposals, solicitation letters and other correspondence as needed to support SDF.

COMMENDATION

The Social Development Foundation (SDF) Board was not created until June 2010. Prior to June 2010, the SDF operated via Advisory or Ad-Hoc Committees. The SDF Board and Community Relations Department staff have worked together to make great strides within the past year to increase the awareness of the SDF and increase its philanthropic giving through various charitable events such as the Culinary Kings & Queens (aka 'Celebrity Chef') and the Jeff Cirillo Golf Outing. Both events were introduced in 2010 and are currently known County-wide as extraordinary events hosted by the SDF, which continue to bring in private dollars to be used for programs and initiatives of the Community Relations – Social Development Commission (CR-SDC).

Table 1: SD Foundation Grants: Applied vs. Awarded

SD Foundation Grants		
	2010	2011
Grants applied for:	\$835,628	\$1,104,300*
Grants received:	\$108,043	\$15,000*

**Data available from the Foundation & Volunteer Manager as of June 8, 2011*

Table 2: SD Foundation: gifts, grants, contributions, and membership fees received (does not include any "unusual grants") as reported on the 2009 Form 990.

SD Foundation Form 990					
YEAR	2005	2006	2007	2008	2009
TOTAL	\$37,493	\$49,633	\$141,015	\$185,236	\$227,886

SD Foundation Fund Allocation Goals:

ENDOWMENT

50% of the funds will be held for investment in an endowment.

SDC BUDGET GAPS

25% of the base will be used to fund SDC shortfalls. This will be part of the SDC annual budget process.

GRANT ALLOCATION

Up to 25% of the base will be used for the annual grants process to be used to fund programs that enhance the client experience, or pilot new innovative programs.

Branding/Marketing Management

The Community Relations Department has recently rolled out the new CR-SDC and SDF branding campaign that was introduced agency-wide in April 2011. The new logos and slogans introduced will increase the CR-SDC and SDF branding and marketing image and promote the use and management of collaterals of the CR-SDC and campaign materials used by the SDF.

AUDIT CONCLUSION

During the audit, we noted many positive initiatives being undertaken by management to strengthen and increase philanthropic giving to the Community Relations – Social Development Commission (CR-SDC) and Social Development Foundation (SDF). This included the hiring of a full-time Foundation & Volunteer Manager that is able to work as a liaison between the SDF Board and CR-SDC.

There were areas of weakness and/or non-compliance identified as it relates to policies and procedures. Policies need to address the “what” and “why” and procedures need to address the “how”. Upon review of the current Community Relations Department policies and procedures, there are a number of areas that are not fully completed (i.e..Solicitations). In addition, some of the policies & procedures written are not fully complied with by the department staff. These areas of weakness and non-compliance are detailed in the ‘Observations, Recommendations and Management Responses’ of the audit report.

CR-SDC is economically dependent on annual contributions and grants from federal, state and local governments and it receives 97% of its revenues for governmental activities from these sources. Per discussions with the Director of Community Relations and the Foundation & Volunteer Manager the goal is to increase philanthropic dollars significantly over the next several years through SDF. With this goal in mind, consideration should be given by the SDF Board and CR-SDC to open a separate bank account in the name of SDF. Currently, all funds received to the SDF are deposited in the general fund bank account of CR-SDC.

Donations made to Family Support Center. Handling of contributions made to the Family Support Center were reviewed and discussed with management. The Family Support Center was sold on December 30, 2010 to Community Advocates. Per discussions with Executive Management of CR-SDC, contributions collected in 2010 were spent in 2010 by CR-SDC. In addition, management ensured any contributions that continue to come to CR-SDC for the Family Support Center will be sent back to the donor along with contact information for Community Advocates.

The exit meeting was held with the Director of Community Relations, department staff and SDF Board representatives on **Friday, June 10, 2011**. Management responses were due to the audit report no later than July 11, 2011. This report includes the Observations, Recommendations and Management responses. Recommendations are based on the internal auditor’s observations and conclusions. They call for action to correct existing conditions or improve operations. Management may find other best practices for implementing recommendations presented, however, these recommendations can be used to correct or enhance performance as a guide for management in achieving desired results.

Benchmarking is an ongoing process that entails quantitative and qualitative measurement of the difference between the company’s performance of an activity and the performance by the best-in class organization. **Attachment A** identifies resources used by the Internal Audit Department when researching best practices within the nonprofit industry. **Attachment B** is a benchmarking report produced to show benchmarking best practices in the Government & Public Administration Sector; this report was produced with the assistance of ProfitCents, a software package used by Wegner, LLP CPAs. Management may find both Attachments useful as a guide in improving operations.

OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

1. **Policies & Procedures**

Finding:

The following was noted when reviewing the current department's policy and procedural manual:

1. The current policies & procedures are in outline draft form and are incomplete.
2. There isn't a written policy or procedure in place that describe how and when to record anonymous contributions.
3. There isn't a written policy in place that would address the acceptance of non-cash contributions such as stock.
4. There isn't a written policy or procedure in place to address 'returned checks' or insufficient funds. To date, this hasn't been an issue for SD Foundation.
5. Policies and procedures for volunteer management are currently not incorporated as part of the overall department's policy and procedural manual.

Recommendation:

- The Policies & Procedural Manual should be finalized and as applicable approved by the SDC Board of Commissioners and SDF Board of Commissioners.
- Policy & procedures should describe how to record anonymous contributions, including restrictions such as staff member name cannot be used to record contribution on the Foundation records including in Raiser's Edge.
- Consideration should be given to include a process for how stock will be received, by whom and how the cash resulting from the stock's sale will be recorded in the Foundation's books. In addition, policies should include non-cash contributions as it relates to real estate and how it will be recorded in the Foundation's books.
- Implement a process that would address how to conduct follow-up when checks are returned due to insufficient funds.
- The volunteering handbook should be incorporated with the department's policy & procedural manual and should clearly document the process the Foundation & Volunteer is currently following.

Management Response:

1. By December 1, 2011, a draft of the Community Relations Policy and Procedure manual will be drafted and submitted to the Quality Assurance Department for further review and recommendations. By December 31, 2011, Community Relations will submit the final draft to the Internal Audit department. Effective December 31, 2011 an updated Social Development Foundation Policy and Procedurals Manual will be drafted and submitted to the SDF Board of Directors for approval to include specifically how Anonymous Gifts will be recorded into Raisers Edge.
2. The updated Policies and Procedures Manual will specifically emphasize that "anonymous contributions" are recorded at the time of receipt and specifically where in the electronic Constituent Profile the SDC staff person indicates that the donors wishes to remain anonymous.
3. Effective December 31, 2011 an updated Social Development Foundation Policy and Procedurals manual will be drafted and approved by the SDF Board of Directors that indicates how stock and real estate donations will be reviewed by SDC and SDF for consideration, steps for accepting the gifts, tax implications and how gift will be recorded in the Foundation's financial accounting.

4. Currently, SDC will re-deposit a check, then if "in-sufficient funds" still remain, we would contact the donor by telephone. Effective November 1, 2011, we will work with the CR-SDC Finance Department to assure a written policy is in the Manual.
5. Effective December 31, 2011 the Volunteer Handbook will be incorporated into the overall Community Relations Policy & Procedural Manual.

2. Cash Contribution Review

Finding:

Cash Contributions consist of contributions received in the form of cash, check, or credit card. These contributions can be designated by the donor as unrestricted, which can be used for general SDC program purpose or as restricted, which its specific use is identified by the donor.

1. There were a total of 381 contributions reported for 2010, totaling \$409,187.47. A sample size of 38 or 10% was selected for review. The following was noted:
 - 4 of 38 (11%) contributions were not recorded in the check log maintained by the Executive Support Manager.
 - 8 of 38 (21%) contributions were recorded in the check log maintained by the Executive Support Mgr. after the donations were processed in Raiser's Edge bypassing an important control.
 - 5 of 38 (13%) contributions did not have a cash/check forms completed.
 - 6 of 38 (16%) contributions were not recorded in the Deposit Log maintained by the Accounting Department.
 - 11 of 38 (29%) contributions purpose did not match fund code. Hence, it appears the donor's request for restricted giving was not applied appropriately.
 - 1 of 38 (3%) contributions was acknowledged before the gift was recorded in Raiser's Edge. Community Relations Department did not send acknowledgment to donor, instead letter was sent by a program manager.
2. There were a total of 135 contributions as of March 8th reported for 2011 at the time fieldwork began, totaling \$66,357.20. A sample size of 35 or 26% was selected for review. The following was noted:
 - 1 of the 35 (3%) contributions was not recorded in the check log maintained by the Executive Support Mgr.
 - 2 of the 35 (6%) contributions were recorded in the check log maintained by the Executive Support Mgr. after the donations were processed in Raiser's Edge, bypassing an important control.
 - 1 of the 35 (3%) contributions was acknowledged before the gift was recorded in Raiser's Edge.
 - 1 of the 35 (3%) contributions purpose did not match fund code. Hence, it appears the donor's request for restricted giving was not applied appropriately.
 - 1 of the 35 (3%) contributions received did not include a reference or check number and check date in Raiser's Edge.

NOTE: Out of the 5 cash contribution forms completed by donors for the 2010 United Way Campaign drive none of the cash contributions were recorded in the cash log maintained by the Executive Support Manager at the time fieldwork was conducted. Note: the 5 cash contributions totaled \$41.00, which is immaterial to the total of \$409,187.47 reported.

Recommendation:

- Properly log all contributions through the check log maintained by the Executive Support Manager, prior to recording in Raiser's Edge to maintain separation of duties and maintain an important control.
- Complete the Cash/Check Form for all contributions received.
- Perform reconciliation of contributions received (via cash, credit, check) on a daily, weekly or monthly basis to the deposit log maintained by the Accounting Department. This reconciliation should be performed by someone other than the individual recording the contribution in Raiser's Edge.
- Ensure that donor's request for restricted use is recorded properly in Raiser's Edge.
- Acknowledgment letters should come from the Community Relations Department only.

Management Response:

1. Effective July 1, 2011 policies and procedures will be updated to reflect that upon receipt all checks/cash received in Community Relations will be immediately forwarded to the Executive department. Secondly, Community Relations will review the existing policy and procedure to determine the appropriate workflow to incorporate processing credit card payment and online gifts.
2. Community Relations will ensure that all cash/checks received have a cash/check form completed to inform accounting of proper allocations as defined by the donor. By January 1, 2012, the Community Relations department will work with the Accounting department to activate the interface of Raiser's Edge with Financial Edge, which will eliminate the need for manual processing.
3. The Community Relations department will review existing control reports to determine best method of reconciliation by the Community Relations Director.
4. Currently all cash receipts processed in Raiser's Edge without an assigned project code are processed under 88350 "Unrestricted". Community Relations will request accounting to 1) change the existing code to read "General" or 2) assign a new code for processing such donations.
5. Effective immediately, all gift acknowledgements for cash and in-kind contributions will originate from the Community Relations department as defined in the final draft of the policy and procedures manual.

3. Recording of Cash Contributions - Segregation of Duties

Finding:

The following was noted during review of the process to record cash contributions for the period under review:

1. The same person receives and records the donations.
2. There appears to be a lack in the cohesiveness of the donations receipt process.

Recommendation:

- Credit card donations should be received and logged by a different staff member before the Community Relations Manager processes and records the funds in Raiser's Edge.
- Cash donations that are received directly in the Community Relations Department should be re-routed to the Executive Support Manager for logging into the Check Log before donations are processed or recorded. In addition, it appears that the Community Relations Manager may be the person who receives the department mail which may include donations. If this is the case, then a different staff member should be designated to receive/open the department mail.
- In-Kind donations should also be logged by the receiver before passing on the form and donated item to the Foundation & Volunteer Manager.
- Donation reports should be generated on a regular basis (i.e. weekly, daily, etc.) so that all donations can be reviewed and compared to original deposits and check log of funds received. It's suggested that the Director or someone other than those that receive or record donations perform this task.

Management Response:

1. Effective December 31, 2011, Raiser's Edge and Financial Edge Database systems will be integrated. Currently credit card donations are submitted by a donor either electronically via the CR-SDC website or written by a donor on the Donor Envelope or processed through a credit card machine at a special event. A manual document was created to accompany any credit card purchase information for the CR-SDC Finance Department. Although the Raiser's Edge Database system produces daily downloads, effective December 31, 2011, both Raiser's Edge and Financial Edge will be integrated. In the meantime, effective September 1, 2011, a request will be submitted to the Executive Offices of the CR-SDC for consideration to identifying a person outside the Community Relations Department with an approved "background check" for training and accepting of credit card transactions.
2. Most all checks are currently received by Administrative Staff in the Executive Department then routed to the Community Relations Department for recording and creating an Acknowledgement letter and tax receipt. Effective immediately, all checks are being re-routed to Administrative Staff of the Executive Department for check logging prior to forwarding to the Community Relations Department and the Finance Department.
3. The receiver of In-Kind donation varies based on how the donor selected SDC as the recipient of their gift. Currently all members of the Community Relations Department accept in-kind donations and a set of forms are completed by the donor and CR-SDC staff person in order to track the in-kind gifts. The Foundation and Volunteer Manager forwards the form completed by the donor to the person entering the donation into Raiser's Edge. Effective November 1, 2011, all employees of the Community Relations Department will be responsible for logging in an In-Kind Gift received prior to giving the actual in-kind gift to the Foundation and Volunteer Manager.
4. Currently, donation reports are reviewed several times weekly, as an automatic electronic "Dashboard" appears on the PC of the Director of Community Relations' computer every day. The Dashboard includes the following: Gift Date, Constituent Name (Donor), Gift Amount, Gift Type and Appeal (Gift Designation). Effective September 1, 2011, this Dashboard will also appear on the PC of the CEO of the CR-SDC.

4. **In-Kind Contributions (Non-Cash) Review**

Finding:

In-Kind Contributions consist of contributions received for the purposes of raffle, or auction. In-Kind Contributions are also collected for general purpose to be used by SDC programs of greatest need.

1. The current draft policies and procedures state that SDC will not calculate or determine the value of gifts donated. However, upon review of the In-Kind contributions, the staff calculated the value of several In-Kind contributions. The process used to determine the values of these contributions was not documented and there was no supporting documentation included with the contribution form on file.
2. There were a total of 174 In-Kind contributions **reported for 2010** totaling \$86,673.92. A sample size of 35 or 20% was selected for review. The following was noted:
 - 10 of 35 (29%) In-Kind contributions did not have a 'non-cash donation receipt form' completed or available at the time of review.
 - 3 of 35 (9%) In-Kind contributions purpose and fund code did not match. It appears what was identified on the donation receipt form was not properly recorded in Raiser's Edge.
3. There were a total of 30 In-Kind contributions **reported as of March 17, 2011** when fieldwork began totaling \$13,362.98. A sample size of 15 or 50% was selected for review. The following was noted:
 - 3 of 15 (20%) In-Kind contributions did not have a 'non-cash donation receipt form' completed or available at the time of review.

Recommendation:

- In-Kind contributions value should not be determined by staff of the Community Relations Department or agency staff. However, if such process will be implemented the proper policies and procedures should be included in the Community Relations Department policy & procedural manual.
- The 'non-cash donation receipt form' should be completed for all in-kind contributions.
- Fund code and purpose should match in Raiser's Edge to the donor's specified purpose.

Management Response:

1. Effective July 1, 2011 all in-kind donations received will be recorded into Raisers Edge at the value provided by the donor. Often, donors have no perceived value of an item. Whenever possible every attempt will be made to secure the retail value of the in-kind donation. If no value is provided by the donor, the value of \$1 will be entered into Raiser's Edge.

Additionally, this specific procedure will be included in the overall Community Relations Policy & Procedural manual.

2. Effective, July 1, 2011, all in-kind donations will have an 'non-cash donation receipt.' If the preponderance was done via email a copy of the email will be stapled to the "non-cash donation receipt" so as to eliminate duplicating the work. Currently, many receipts are accompanied with this form.
3. Effective September 1, new "Attribute Codes" will be created as new donor designated areas surface. The accounting code, "88350" will also be renamed "General" (vs. "unrestricted") in both Raiser's Edge and Financial Edge.

5. Oversight of Contributions

Finding:

The following was noted regarding oversight of contributions for the period under review:

1. The daily Check Log is currently being distributed to only the Accounting Specialist in the Accounting Department and Community Relations department staff.
2. Credit card information including privacy is not adequately maintained and stored securely.
3. Contribution reports are not run by the department on a consistent basis, nor are reconciliations performed of daily contributions to daily deposits.

Recommendation:

- The Accounting Manager and/or Finance Director should be added to this distribution list as an additional control measure and also as a back-up should the Accounting Specialist be absent.
- Develop a record retention policy that includes parameters for the length of time credit card information should be kept and how it should be destroyed.
- Credit Card information collected during campaign drives should be removed from the campaign form immediately so information is not susceptible to misuse.
- Reports should be generated by the Department Director at least on a weekly or monthly basis and reconciled to the records of the daily deposit log, maintained by the Accounting Clerk. Note: this task can also be delegated, but segregation of duties need to be in place (ie..same person receiving deposit or entering contribution into Raiser's Edge should not perform the reconciliation)

Management Response:

1. Effective in June as soon as this report was shared, the Director of Community Relations has included the Director of Finance and the Finance Manger on the daily distribution emails that outline the daily check log.
2. Effective November 1, 2011, a Record Retention Policy will be created, documented and adhered to that will include the length of time credit card information should be kept and method for 3. destruction.
3. Beginning July 1, 2011 the credit card number submitted by donors and supporters will be physically "cut out" and shredded. This includes both credit card processed receipts and handwritten forms that have the donors' credit card number listed.
4. Effective September 1, 2011, the Director of Community Relations will review and reconcile both the Daily Deposit Log (which is created and managed by the CR-SDC Executive Department) as well as the Raiser's Edge records log against the monthly Accounting Log already provided by the CR-SDC Finance Department.

6. Contest Raffle Winners

Finding:

The following was noted during the review of the State of WI Division of Gaming documentation:

1. Foundation and Volunteer Manager paid for an annual Division of Gaming and License fee with a personal credit card.
2. Lack of a clear process for purchase of raffle tickets and other contest & raffle related purchases.
3. Unable to reconcile Expenses and Revenues reported to the State of WI Division of Gaming.

Recommendation:

- Any purchases made on behalf of the agency are paid utilizing the agency's credit card and not a personal credit card and/ or account.
- Policies and procedures are updated to clearly outline the entire contest and raffle winner process (i.e..purchases).
- Ensure that expenses and revenues are documented and filed for each event. This includes documenting all purchases and reconciling gross receipts and expenses reported to the State of WI Division of Gaming.

Management Response:

1. At the time the operations Department of the CR-SDC agency issues the P-cards (September 1, 2011), all purchases on behalf of the CR-SDC agency and the CR-SDC SD Foundation will be paid using either the P-Card or the CR-SDC agency credit card that is held with the CR-SDC Finance Department..

Please note: that in the case of Special Events, all attempts will be made to use an agency credit card, or the P-card.. However, in certain instances, the agency credit card, nor the department P-card will not be accepted by vendors. Vendors such as eBay, places of business where alcohol is sold or truck rentals require a personal credit card from the person with a valid driver's license driving the rented vehicle or the person making the actual purchase. In some cases, time does not permit us to use an agency card.

2. Effective, December 31, 2011 a comprehensive procedure for running a raffle will be outlined in its entirety in the overall Community Relations Policy & Procedural Manual. Existing metrics, volunteer sales tracking forms and a financial projection template is used to manage raffles and will be inserted into the Manual.

3. All expenses/revenue are documented for each event. Raffle revenues and expenses are reported to the state of Wisconsin. Please note SDF raffle revenue is not based on a one-to-one ratio, therefore reconciliation is based on volunteer/staff sales records.

7. Post Event Critiques

Finding:

Per the policy and procedural manual under section 'E' - Special Events, is written:

- The agency staff will evaluate each event as soon as possible after completion to determine if repetition of the event is desirable. A net profit amounting to 50% or more of the gross proceeds will be the goal for all special events.

Recommendation:

- Post event critique evaluations are conducted along with documentation added to the event file showing the specific goal for each event as well as the net profit amounting to 50% or more of the gross proceeds.

Management Response:

Currently, the Community Relations staff evaluate and analyze all special events using the SWOT analysis (Strength, Weakness, Opportunities & Threats) with the CR staff. This will continue to be part of our Department operations. This information is currently housed on the department's Marketing Drive. Effective August 1, 2011, the CR Department will additionally print out the SWOT Analysis and keep a copy in the specific special event Binder and keep a third copy of the SWOT Analysis in the Raiser's Edge Database, in the tab that reads, "Media". The SWOT Analysis will be saved as an Adobe PDF.

Should the specific special event not produce a net profit of more than 50% of the gross proceeds, it will be clearly noted in the SWOT Analysis.

8. SD Foundation Bylaws

Finding:

The following was noted when reviewing SD Foundation's Bylaws:

1. Currently, one Board of Commission member is on the SDF board.
2. SDF Bylaws do not state term of office and limitations.
3. Board members had not attended the required minimum of three Board meetings between January 1 and December 31 of 2010, and has not forfeited his/her Board seat.
4. A report of attendance for 2010 was not made at the December 2, 2010 Board meeting.
5. New Board members have not received a complete orientation within the first month after they accepted the appointment.

Recommendation:

- Ensure that 2 SDC Board of Commissioners serve on the SD Foundation Board, per the SDFoundation Bylaws.
- Update Bylaws to include term of office and any limitations for SDFoundation Board members.
- Adhere to SD Foundation meeting attendance requirements and update the SD Foundation Bylaws accordingly. In addition, attendance records should be accurately kept and reported out at the December SD Foundation Board meeting.
- Ensure new SD Foundation Board members receive orientation within the first month of swearing in and update the SD Foundation Bylaws accordingly.
- Consideration should be taken by the SD Foundation Board of Directors to review the Bylaw model recently adopted by the SDC Board of Commissioners for standards and language that can be utilized within the SD Foundation Board Bylaws.

Management Response:

1. Effective December 31, 2011, pending SDF Board approval, the By-Laws of the Social Development Foundation will be updated to reflect that either a Social Development Commissioner or the CEO of the Social Development Commission will serve on the SD Foundation Board.
2. Effective December 31, 2011, pending SDF Board approval, the By-Laws of the Social Development Foundation will be updated to reflect the terms of office for its Board members and any restrictions or limitations for SD Foundation Board Members.
3. To date, there are currently no meeting attendance requirements, nor orientation requirements stated in the SDF By-laws. Effective December 31, 2011, pending SDF Board approval, an updated version of the SDF the By-laws will be completed. It will then be determined if attendance requirements should be listed as part of the By-Laws or inserted into the Policy & Procedures manual.
4. Effective September 1, 2011, serious consideration will be reviewed by the SD Foundation Board of Directors to adopt the By-laws model recently implemented by the SDC Board of Commissioners. Helpful standards of practice and language will be considered for use and implementation by the SDF.

Please note: The SD Foundation Board and BOC serve very different functions even though they relate to helping the clients of SDC. One provides Governance & Oversight, and the other provides Philanthropic support to the programs of the SDC. While we will make every effort to standardize language, there may not be as much overlapping as might be expected. The Philanthropic industry and culture practice its own science and art in order to garner volunteer and donor support

9. SDFoundation Annual Reports

Finding:

Per review of the SDF Bylaws, SDF does not provide a written annual report to the SDC Board of Commissioners, instead a verbal report is provided.

Recommendation:

A written annual report should be provided by the SD Foundation Board to present to the Board of Commissioners at the SDC Board of Commissioner's Annual meeting. A verbal report can be provided to give a highlight of what's in the written annual report; however a written report should be provided for a permanent record.

Management Response:

Effective September 1, 2011 an SDF Annual report will be produced. The Annual Report will include Financials of the SD Foundation, a list of its Board of Directors, and highlights from the year. CR-SDC anticipates the agency 990 will be completed by August 2011 so we may report out our final financials.

10. SDF Financial Management

Finding:

Currently, SDF does not have a separate bank account in the SD Foundation's name. All funds currently received are deposited with the SDC's general operating account.

Recommendation:

The SDF Board considers opening and operating a separate bank account held in the Foundation's name. The same bank account policies & procedures that are in place for SDC should be in place for the SD Foundation bank account; including the requirement for two signatures for disbursements to occur. As the SD Foundation funding increases it would be ideal to have this funding tracked and maintained separate outside of SDC funds.

Management Response:

1. Consideration has been made to move the SDF monies to a separate account from the SDC monies. In October 2010, the SD Foundation Board of Directors Treasurer, Maureen McGowan Milner, met with SDC Finance Department staff to assess the SDF having a separate bank account. In view of the above proposed the SDF Board and the SDC staff reached an agreement that it would be far more efficient and effective to continue to manage monies within the current system. The SD Foundation will continue to review the current financial operations and as the SD Foundation expands and grows, the SDF Board and the CR-SDC staff will re-evaluate operating a separate bank account.

Rationale for maintaining the current financial management of the SDF includes:

- A. There is a large number of pass through grants that are processed through the SDF. This is the majority of private program funds collected for CR-SDC. These grant dollars require immediate grant accountant attention for processing and SDC program functionality.
- B. A requirement for two signatures on foundation checks would be time consuming for the SD Foundation Board members and slow down the expenditures for programs and Finance staff.
- C. Existing policies and procedures are highly efficient for all of the CR-SDC organization.

11. Registration as a Charitable Organization

Finding:

SD Foundation is considered a 'Charitable Organization' according to the Wisconsin State Statutes, SubChapter IV. SD Foundation as of 2011 was not registered with the State of Wisconsin as a Charitable Organization. This was brought to the attention of the Foundation & Volunteer Manager during the course of the fieldwork.

Recommendation:

SD Foundation should align with the requirements as specified in the Wisconsin State Statutes to:

- Register as a Charitable Organization
- Complete the required Registration Statement, which must be signed by two authorized officers, including the Chief Fiscal Officer.
- In the future, if SD Foundation or SDC chooses to utilize a Fundraising Counsel, Consultant or other Professional Fund-Raiser for Fund-Raising activity, special attention should be given to Wisconsin State Statutes SubChapter IV 440.43 and 440.44.

NOTE: Per discussion with the Foundation & Volunteer Manager in April 2011, SD Foundation was registered with the State of Wisconsin as a Charitable Organization.

Management Response:

To date, the SDF has registered as a Charitable Organization with the State of WI and has received confirmation of its registration.

Should the SDC or SDF choose to contract a professional fundraiser, we will adhere to the WI State Statutes SubChapter IV. 440.43 and 440.4.

Other Areas Identified for Improvement

12. United Way's Acknowledgment to Agencies Report

Finding:

United Way's 'Acknowledgements to Agencies' report downloaded by the Community Relations Manager for the 2010 United Way Campaign drive did not accurately reflect funds specified as restricted by the donor. As a result, 3 out of 128 contributions (2%) were not recorded properly in Raiser's Edge. During the course of the audit fieldwork this was discussed with the United Way Representative and Community Relations Department staff. The correction in Raiser's Edge was made by the Community Relations Department Manager upon discovery of this error.

Recommendation:

The Foundation & Volunteer Manager and Community Relations Manager should work together to ensure that all donations received through the United Way Campaign are accurately captured on the 'Acknowledgements to Agencies' report (ie..restricted & unrestricted). Any discrepancies should be reported immediately to United Way.

Management Response:

Effective September 1, 2011, which is the launch of the 2011 United Way Campaign (to secure monies in 2012) the CR-SDC designated person (staff or volunteer) entering donation information into our Raisers Edge system, along with the United Way person coordinating the United Way campaign, will work together to assure all reports and "Acknowledgements to Agencies" capture the donor's wishes, whether or not the gift is restricted or unrestricted or if the gift is specified for a certain SDC project. All inconsistencies will be promptly reported to United Way staff.

13. Gift Acknowledgements

Finding:

The current draft policies and procedures state that gift acknowledgements should be made within 48 hours of receipt. While all contributions selected for review received an acknowledgement letter, the following was noted:

Cash Contributions

- In 2010, 16 of the 38 (42%) cash contributions were acknowledged after the 48 hour period. Instead it was between 9 days and 3 months before the donor was acknowledged for their gift.
- In 2011, 10 of the 35 (29%) cash contributions were acknowledged after the 48 hour period. Instead it was between 4 days and 27 business days.

In-Kind Contributions

- In 2010, 29 of the 35 (83%) In-Kind contributions were acknowledged after the 48 hour period. Instead it was between 15 days and 8 months before the donor was acknowledged for their gift.

- In 2011, 11 of the 15 (73%) In-Kind contributions were acknowledged after the 48 hour period. Instead it was between 12 days and 30 days.

At the time of review Acknowledgement letters did not include standard IRS disclosure.

Recommendation:

- Acknowledgments to donors should occur within 48 hours, whether for cash contributions or in-kind contributions, per written policies & procedures.
- Gift acknowledgement letters should consistently include the standard IRS disclosure:
 - Statement that no goods or services were provided by the organization, if that is the case;
 - Description and good faith estimate of the value of goods or services, if any, that organization provided in return for the contribution.

Management Response:

1. Effective July 15, 2011, acknowledgements to donors will occur within a reasonable time of gift receipt. The previous 48 hours was a suggestion made a few years ago, but has proven to be unrealistic.
2. Gift acknowledgement letters will consistently include the standard IRS disclosure statement.
3. When known, a value for the goods and or services received will be stated, should an agreement have existed in exchange for the stated contribution.

14. Competitive Grant Process Review

Finding:

The competitive grant process is when SDC internal programs apply for and receive grants from the Social Development Foundation (SDF) to help pay for items not traditionally covered through regular funding streams.

1. There were a total of **5 Grants** Distributed to internal programs at SDC for **2010**. A sample of 5 grant applications or 100% was selected for review. The following was noted:
 - Per the Foundation & Volunteer Manager there weren't any established policies or procedures in place to grant funds to internal SDC programs. Therefore, the only requirement in 2010 was for the program to submit an application for funds. There were applications on file for all programs that received grants in 2010. There was a total of \$3,105.00 in grants awarded to SDC programs.
2. There were a total of **4 grants** distributed to internal programs at SDC during the 1st quarter of **2011**. A sample of 4 grant applications or 100% was selected for review. The following was noted:
 - Final Approval for the 4 grants distributed in 2011, was only obtained by the Ad-Hoc Grant Advisory Committee established by the SDF Board.

Recommendation:

- A consideration should be made by the SDF Board that an authority approval limit is extended to the Grant Advisory Committee to allow the Committee to approve grants to SDC internal programs. Otherwise, the policy as written should be adhered to and all final approval for grant distribution should be obtained from the full SDF Board prior to being awarded.
- Consideration may need to be considered for implementing a policy & procedure regarding distributing 'cost-reimbursement grants'.

Management Response:

1. By December 31, 2011, pending SDF Board approval, the SD Foundation the Grants Advisory Committee will receive ultimate authorization to issue grants of a pre-determined dollar amount.
2. Effective July 1, 2011, the SD Foundation wishes to decline implementing a 'Cost-Reimbursement Grants' procedure. The preferred and current method of issuing grant dollars to requiring programs of the CR-SDC to pre-plan program needs includes accountability of expenditures and anticipated project outcomes.

15. Fundraising Process

Finding:

The following was noted during the review of the Fundraising process and interviews with the Foundation & Volunteer Manager:

- There isn't a clearly defined Fundraising process currently in place.

Recommendation:

There needs to be a more defined process when evaluating Fundraising events and other activities such as:

- Conducting a Cost Benefit Analysis
- Identifying objectives and goals related to the event
- Ensuring the event will impact the mission of the organization

Management Response:

Effective, October 31, 2011 the SDF will produce a one-page form to assess the process of determining the merits of various planned fundraising events and campaigns. The form will demand a projected cost/benefit analysis, an outline of financial and other goals for the project, and the anticipated impact on the CR-SDC programs, the public relations value and the strengthening of community collaborations and partnerships. The industry standard will be noted on each assessment. It will be identified whether or not there is an immediate impact or a long-range impact. This form will be included in the CR Policy & Procedural manual.

16. Solicitations of Donations

Finding:

The following was noted during the review of the Solicitation of Donations:

- The current policy and procedural manual language is vague in addressing 'Solicitation of Donations'.

Recommendation:

- Language should be updated to clearly define the process for Solicitation of Donations.

Management Response:

Review of existing language for updating will be completed by December 31, 2011 and submitted to the Quality Assurance Department for final approval prior to submitting to the Internal Audit Department. Please note: The processes, approaches and strategies will vary based on targeted donors, funders, sponsors and supporters.

17. Sponsorships

Finding:

The following was noted during the review of Sponsorships in the policy and procedural manual:

- Current policy and procedural manual 'Sponsorships' section is incomplete.

Recommendation:

- There should be clearly written policies and procedures addressing how Sponsorships should be obtained when a fundraising event or other SDC or SD Foundation activity is being planned.

Management Response:

Policies and procedures will be written and submitted to the Quality Assurance Department for final approval by November 1, 2011.

18. Fundraising Campaign Materials

Finding:

Per, the policy and procedural manual section 'E' - Non-Agency Sponsored Events states:

- The SDF Board of Directors must approve all fundraising events, fund raising activities, and publications which use the name of the agency to generate funds or attendance.

Recommendation:

The Social Development Foundation (SDF) Board of Director's consider the following:

- Campaign materials are approved at the SDF Board Meeting or designated Committee
- Motions are approved and reflected in the SDF Board or designated Committee meeting

Management Response:

1. Effective December 31, 2011, pending SDF Board approval, the Policies and Procedures Manual of the Social Development Foundation will be updated to reflect that only the pre-assigned ad-hoc Board committee overseeing various campaigns is required to approve the collateral campaign materials.
2. It will be noted in the SD Foundation full board minutes that the Ad-Hoc committee has approved the campaign materials.

19. Fundraising Process Review

Finding:

The following was noted when reviewing the current department's policy and procedural manual:

1. The current policy and procedural manual language regarding implementation of a fundraising event or other activity is vague and uncomprehensive.
2. The Celebrity Chef Contract and the Jeff Cirillo contracts reviewed for 2010-2011 Fundraising year did not contain any corporate contract standard language in either contract

Recommendation:

- The verbiage in the policy and procedural manual is updated to clearly specify how to implement a fundraising event or other activity.
- SDC is unique in that the consulting contracts entered into vary by department and/or program depending on the need. At a minimum there should be corporate contract standard language in every contract the agency decides to enter into.

Management Response:

1. The process for implementing an event will be updated to include guidelines and steps for implementing a special event.
2. The CR Department and the SD Foundation will collectively create a template for the purpose of all future "contracts". The template will be created with input from the CR-SDC Purchasing Department and a local Legal Council when necessary. The template will be in place by December 31, 2011. Currently, the CR Department applies an MOU format to clearly outline expectations with its corporate sponsors, community based organizations and the media.

20. Raiser's Edge System Access

Finding:

Raiser's Edge is the fundraising and donor management software currently utilized. The following was noted during the review of the Raiser's Edge system and interviews with department staff:

1. Currently, there is not a methodology to verify data or errors made that's entered into the Raiser's Edge system.
2. Lack of polices and procedures that addresses terminations and individuals responsibilities that have changed.

Recommendation:

- Polices and procedures should document how data and errors are verified and maintained when entering information into Raisers Edge. In addition, policies should address when there are terminations and/or changes in staff responsibilities in Raiser's Edge system. This allows for strong system controls and accountability of access levels within the system.

Management Response:

Beginning July 1, 2011 the existing system reports will be reviewed to determine best possible method for reviewing and detecting input errors. The final outcome of this review will be documented and incorporated into the Community Relations Policy & Procedural manual based on the timeline previously noted. Additionally, the final procedure manual will reflect the system access levels for appropriate controls.

21. Cash/Check Receipt Forms

Finding:

The Cash/Check receipt forms used by the Community Relations Department to prepare deposits have an "approved by" and "date" field on the form that was completed for any of the contributions reviewed.

Recommendation:

Forms should be completed in their entirety. Approval should be signed off by someone other than the person completing the form for segregation purposes.

Management Response:

Current forms have been updated to remove the approval section. Cash processing does not require an approval process. Additionally this form will be eliminated with the implementation of the integration of Raiser's Edge with Financial Edge.

Community Relations – Donations Process
 Audit 2011
 Benchmarks & Best Practices

Source:	Best Practices:
<p>Lewis & Clark University – Advancement Services Department uses Raiser’s Edge. The department processes over 500 production and ad-hoc list requests per year. Website: http://www.lclark.edu</p>	<ul style="list-style-type: none"> • Pledge Aging • Pledge Cancellations • Pledge Entry • Reminder Cancellations
<p>Institutional Memory, Inc. – is the ultimate prospect management system for our major gift, planned gift or campaign prospects. Website: http://www.giftedmemory.com</p>	<ul style="list-style-type: none"> • Identify- potential philanthropists • Strategic Planning- each solicitation is a campaign unto itself • Stewardship- is to report on how the gift was used • Renewal- Analysis of fundraising programs in which major donors had given to for over periods over time
<p>Center on Philanthropy at Indiana University- Capital Campaigns and their characteristics Website: http://www.philanthropy.iupui.edu</p>	<ul style="list-style-type: none"> • Precampaign planning- determines various asset building needs • Gift Range Charts- illustrates how many gifts of what size a campaign requires • Feasibility of Precampaign planning • Leadership and Campaign management- relies on four parts: governing board, volunteers, key staff and non-board campaign members
<p>Charity Navigator – benchmarking tool to compare program expenses, fund expenses, fund efficiency. Website: http://www.charitynavigator.org</p>	<ul style="list-style-type: none"> • Review local and other Charity Ratings (I.E.Boys & Girls Clubs of Greater Milwaukee, YMCA of the Fox Cities, Second Harvest Foodbank of Southest Wisconsin)
<p>U.S. BBB Wise Giving Alliance Standards for Charity Accountability Website: http://www.bb.org/us/Charity-Evaluation</p>	<ul style="list-style-type: none"> • Reviews areas such as: Governance, Effectiveness, Solicitations and Informational Materials and Standards for Charitable Accountability

Community Relations – Donations Process
Audit 2011

Benchmark Report Provided by
Wegner, LLP
CPAs & Consultants

FINANCIAL REPORT

This report is designed to assist you in your organization's development. Below you will find your overall ranking, organizational snapshot and narrative write-up.

Snapshot of: SDF

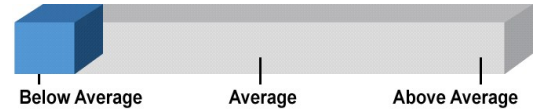
Sector: W20 - Government & Public Administration

Revenue: Less than \$1M

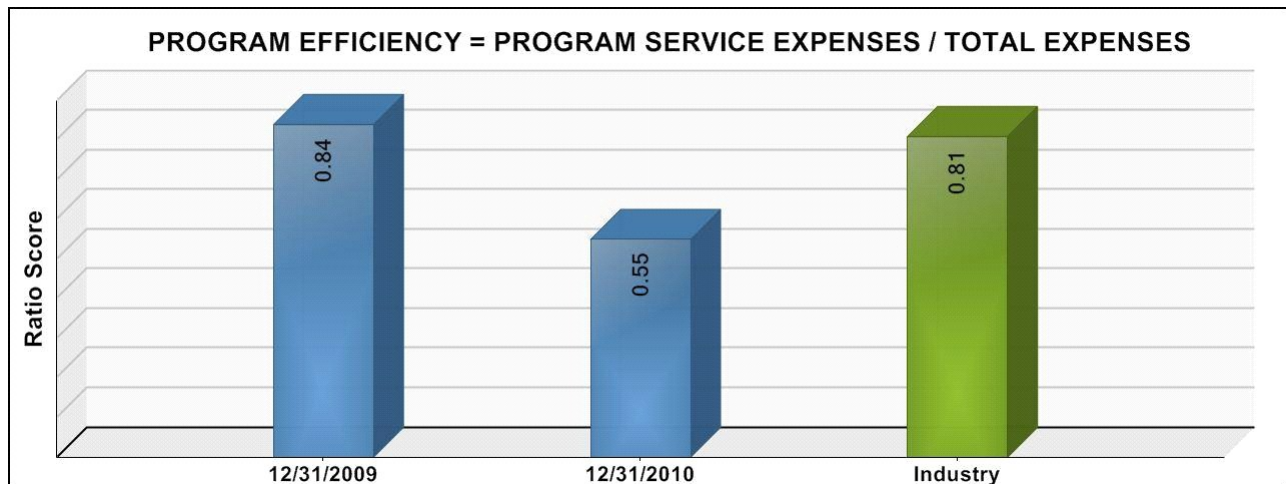
Periods: 12 months against the same 12 months from the previous year

NONPROFIT OPERATIONAL ANALYSIS

A measure of how well the organization is managing money with regard to its sector and mission.

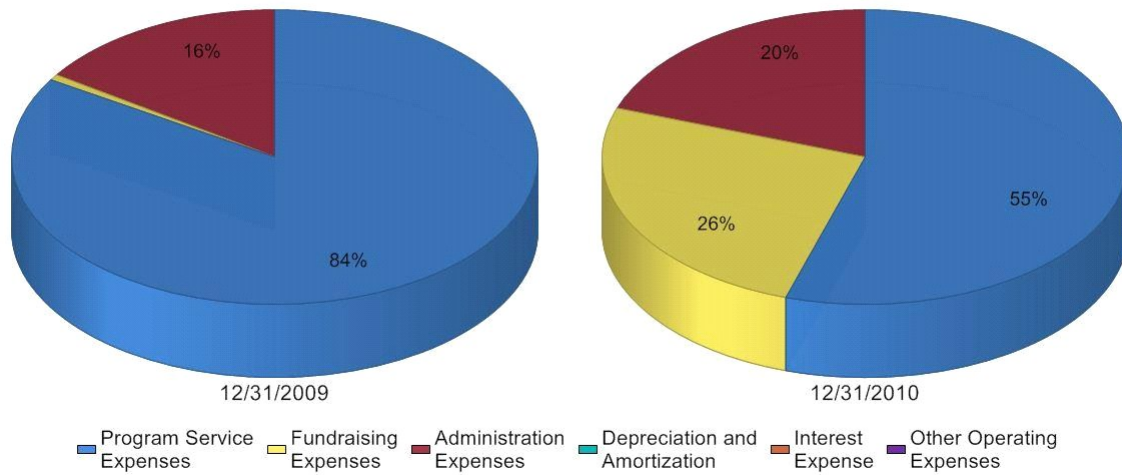


The **revenue composition ratio of the organization rose** this period from last period, which is good. However, this statistic is **still low**, which may be a negative depending on how much the organization can rely on non-program sources of revenue over time. Typically (although not always), program revenue sources are more stable and predictable than non-program sources. There are two main positives to report in this regard. First, program revenues do pay for a moderate portion of the organization's total expenses in general. Second, the organization seems to have another solid revenue source in contributions, which were collected at a high level this period relative to the organization's investment in fundraising expenses. Overall, it is concerning to see that the organization's program efficiency is lower than sector peers. This key metric indicates how much of an organization's money is going to programs, which are generally tied to the mission. For this reason, management *should* consider strategies that could increase this key statistic.



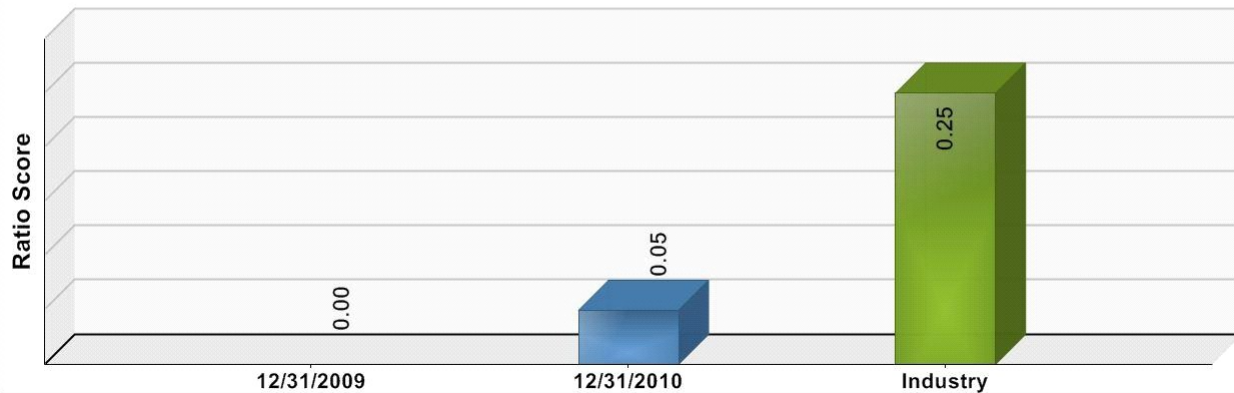
Shows the basic relationship between program expenses and total expenses. The best outcome would be a ratio close to 1, where the majority paid by a nonprofit would go towards "programs". This ratio is typically keenly watched by employees, managers, Board members, donors, and contributors. It tends to be one of the more important metrics that many nonprofits use in assessing performance.

EXPENSES BREAKDOWN



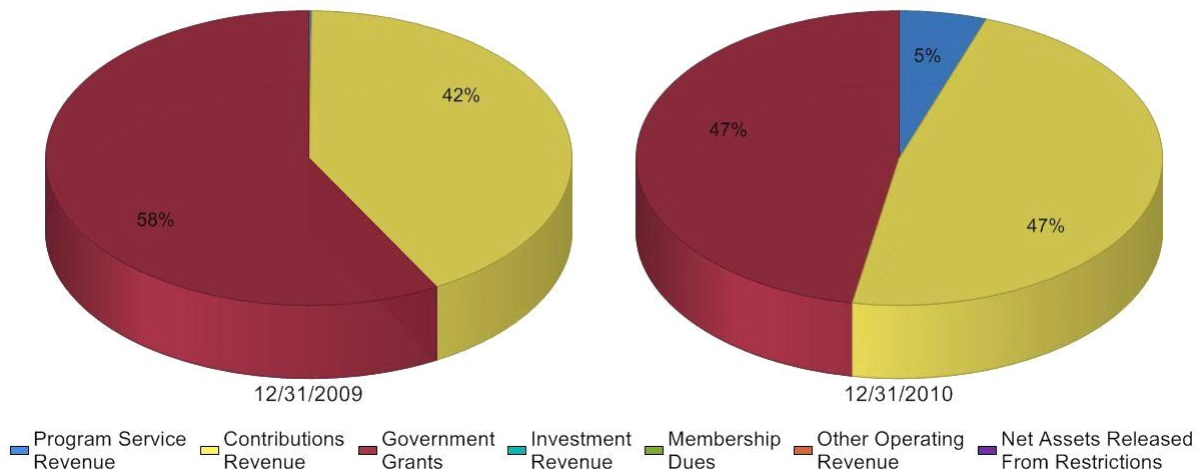
This shows the breakdown of all expenses of the nonprofit. In most cases, the majority should go towards Program Service Expenses.

REVENUE COMPOSITION = UNRESTRICTED PROGRAM SERVICE REVENUE / TOTAL UNRESTRICTED REVENUE



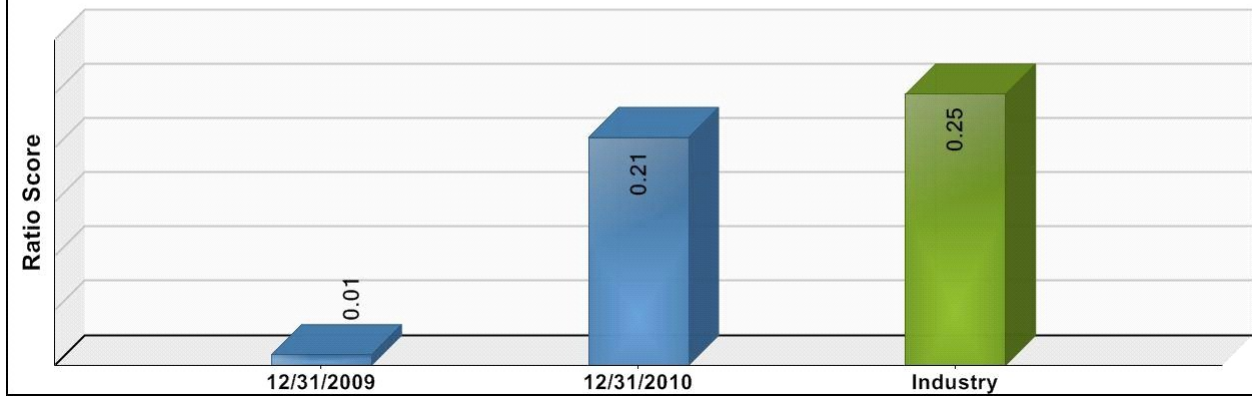
This metric shows the composition of the organization's revenue stream. Specifically, it shows how many cents in program revenue there are for each dollar of revenue generated. Some people like to look at this to see how dependent the entity is on outside funding.

REVENUE BREAKDOWN



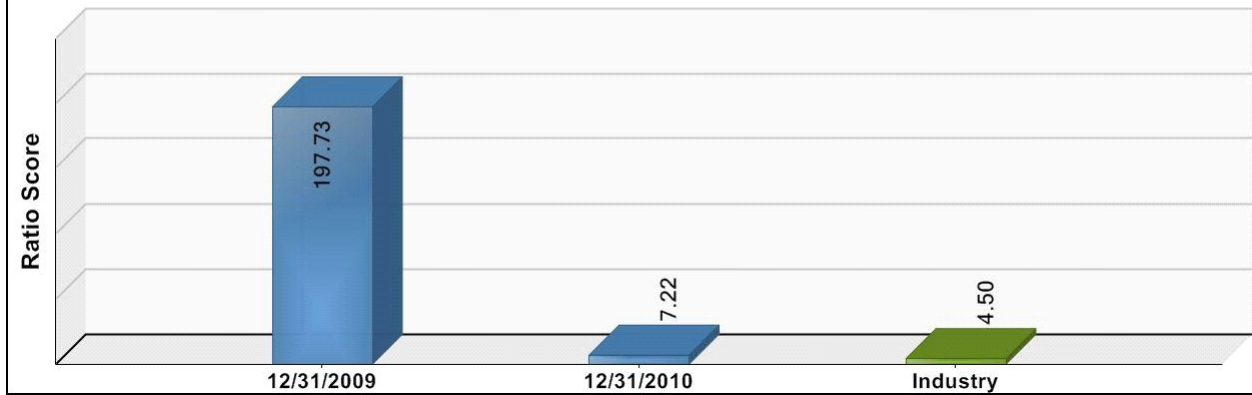
This shows the breakdown of all incoming revenue of the nonprofit. In most cases, the majority should be coming from Program Service. This chart can be useful to show how dependent the entity is on outside funding.

OPERATING RELIANCE = UNRESTRICTED PROGRAM SERVICE REVENUE / TOTAL EXPENSES



Shows how able a nonprofit entity is to pay for total expenses from program revenues alone. Many times (although not always) program revenues are more predictable and consistent sources of money and, therefore, it is a point of interest to see how able a nonprofit is to liquidate expenses from just program revenue. The ideal score would be 1 or even above 1 in very rare cases.

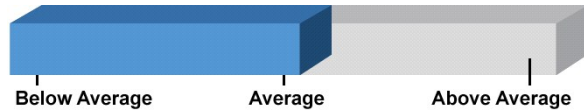
FUNDRAISING EFFICIENCY = UNRESTRICTED CONTRIBUTIONS / UNRESTRICTED FUNDRAISING EXPENSES



Shows how much contribution revenue a nonprofit can generate from fundraising activities/expenses. The ideal relationship is a high number, which would mean that the nonprofit is able to generate a multiple of how much it costs to do fundraising.

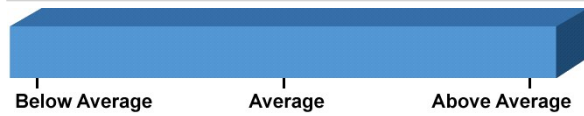
NONPROFIT FINANCIAL ANALYSIS

Financial Score for SDF



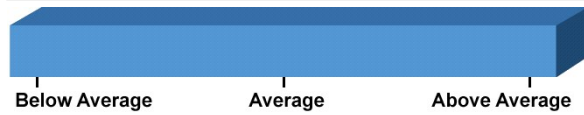
LIQUIDITY -

A measure of the organization's ability to meet obligations as they come due.



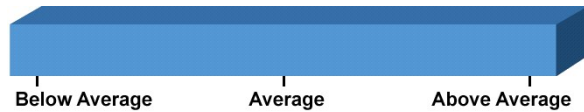
OPERATING YIELD TRENDS -

A measure of whether the trends in profit are favorable for the organization.



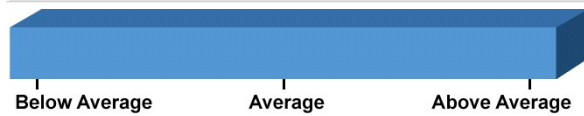
REVENUE -

A measure of how revenue is growing and how it lends itself to the organization's program services.



BORROWING -

A measure of how responsibly the organization is borrowing and how effectively it is managing debt.



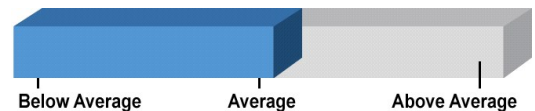
ASSETS -

A measure of how effectively the organization is utilizing their gross fixed assets.

Financial Analysis for SDF

LIQUIDITY

A measure of the organization's ability to meet obligations as they come due.

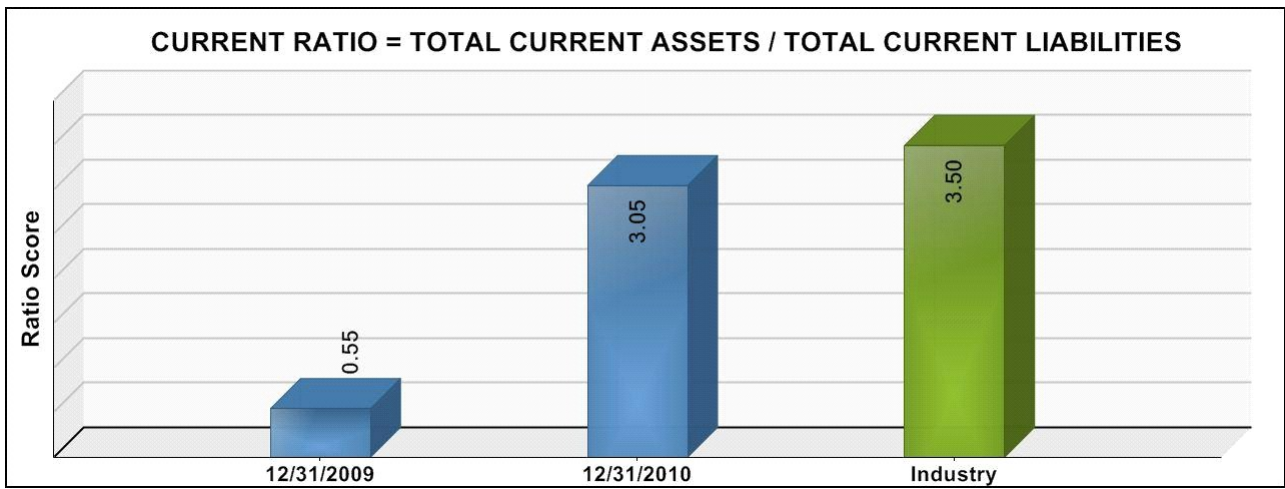


Unfortunately, all too often in financial analysis, organizations get so caught up in the details that they miss the big picture. That's what can be derived regarding this organization from this report. The most important component of an organization's short-term success is liquidity -- its ability to pay bills. Liquidity is a measure of the organization's cash position. It keeps an organization operating in the short run.

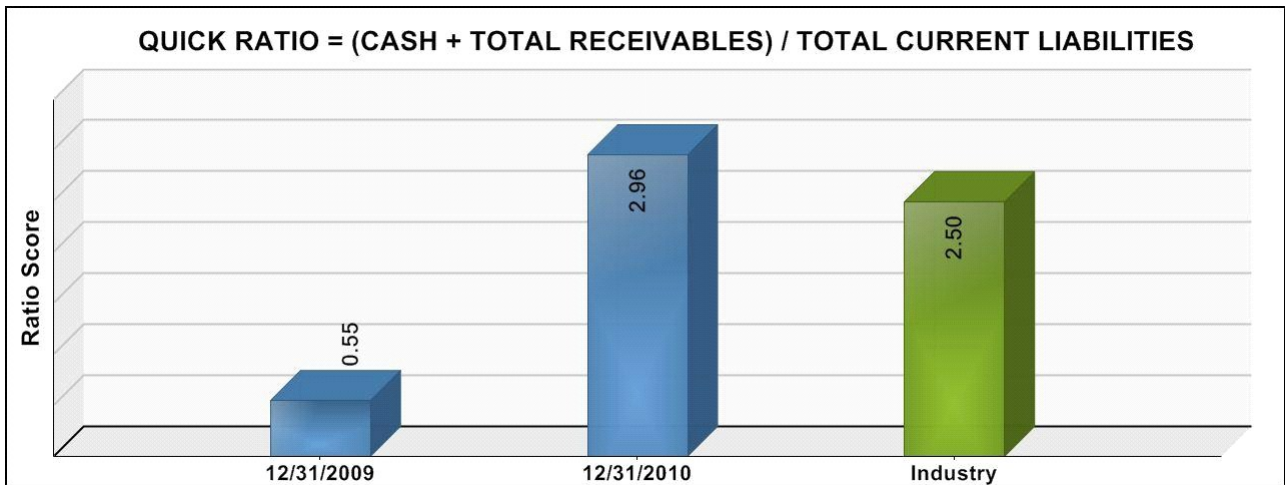
The organization's liquidity position is fairly good -- about average or fair for the sector. The best part of the results is that this position has improved in several of the areas from last period. If the operating yield and revenue are continually moved higher, the organization should be able to elevate its position over time. A good goal over time is to actually have an above average liquidity, so that resources can be steered towards investments that will help to leverage operating yield dollars higher (assets, people, marketing).

The organization will want to work to improve its receivable days number, which is currently higher than the sector average. A higher receivable number tends to depress cash since it generally indicates the organization is taking a longer period of time to collect the money it is owed. Also, payable days are only about average. The organization would be in a stronger overall liquidity position if it can collect money more quickly than how it pays vendors.

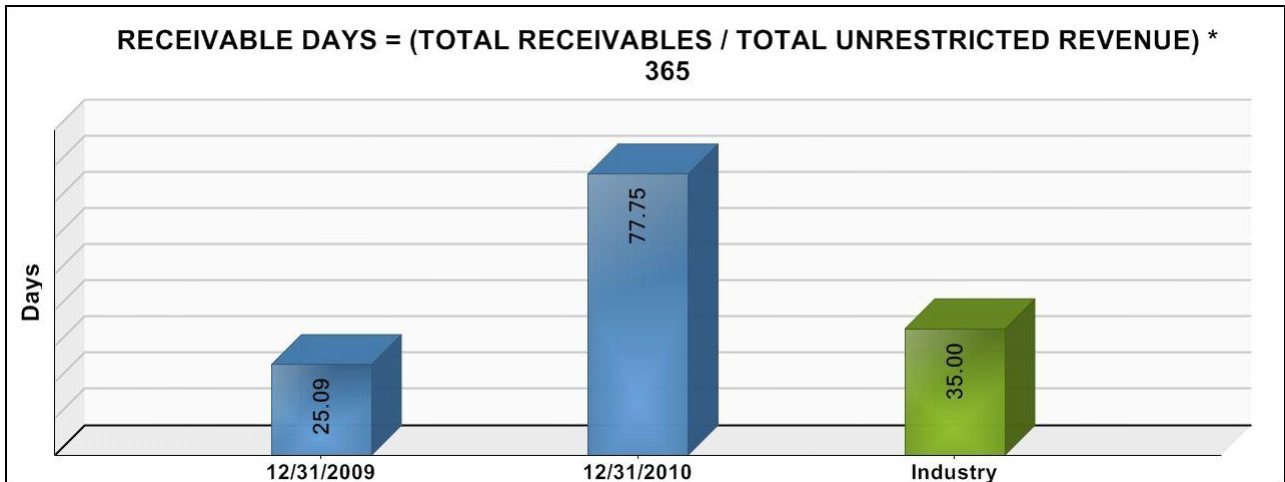
LIMITS TO LIQUIDITY ANALYSIS: Keep in mind that liquidity conditions are volatile, and this is a general analysis looking at a snapshot in time. Review this section, but do not overly rely on it.



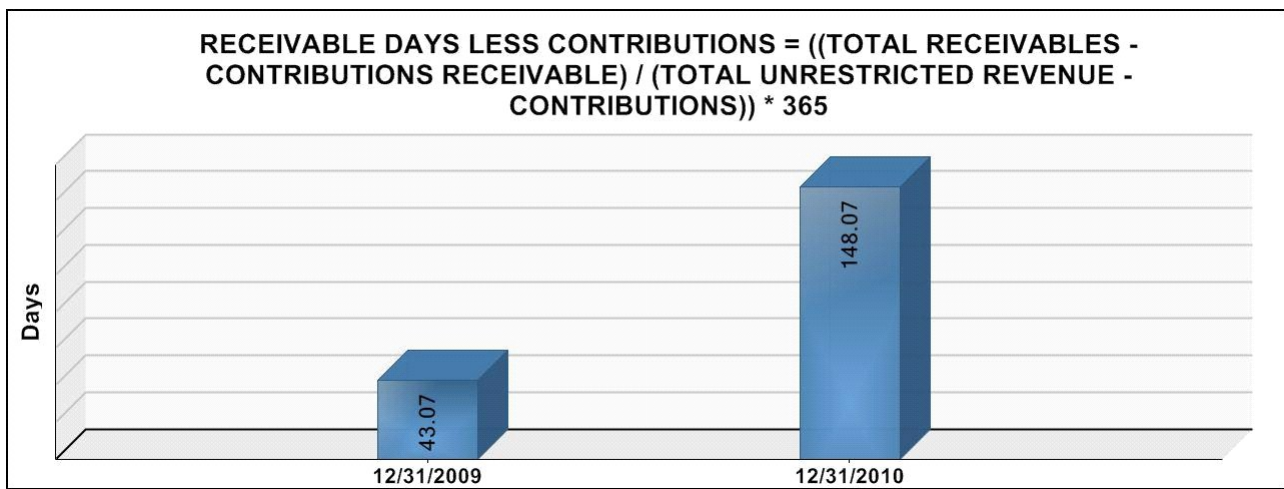
Generally, this metric measures the overall liquidity position of an organization. It is certainly not a perfect barometer, but it is a good one. Watch for big decreases in this number over time. Make sure the accounts listed in "current assets" (numerator) are collectible. The higher the ratio, the more liquid the organization is.



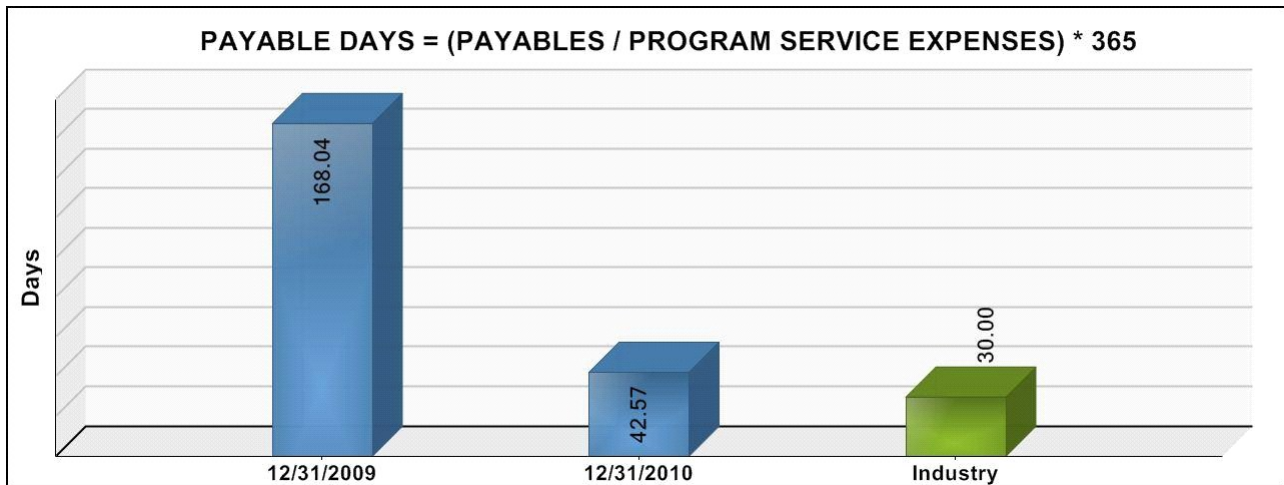
This is another good indicator of liquidity, although by itself, it is not a perfect one. If there are receivable accounts included in the numerator, they should be collectible. Look at the length of time the organization has to pay the amount listed in the denominator (current liabilities). The higher the number, the stronger the organization.



This number reflects the average length of time required to collect cash from receivable accounts such as pledged contributions and/or program services transactions completed using credit. It is crucial to maintaining positive liquidity.



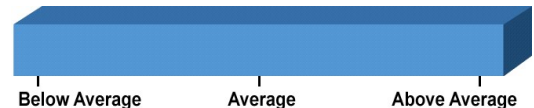
This number reflects the average length of time required to collect cash from all receivable accounts except pledged contributions. It is crucial to maintaining positive liquidity.



This ratio shows the average number of days that lapse between the purchase of material and labor, and payment for them. It is a rough measure of how timely an organization is in meeting payment obligations.

OPERATING YIELD TRENDS¹

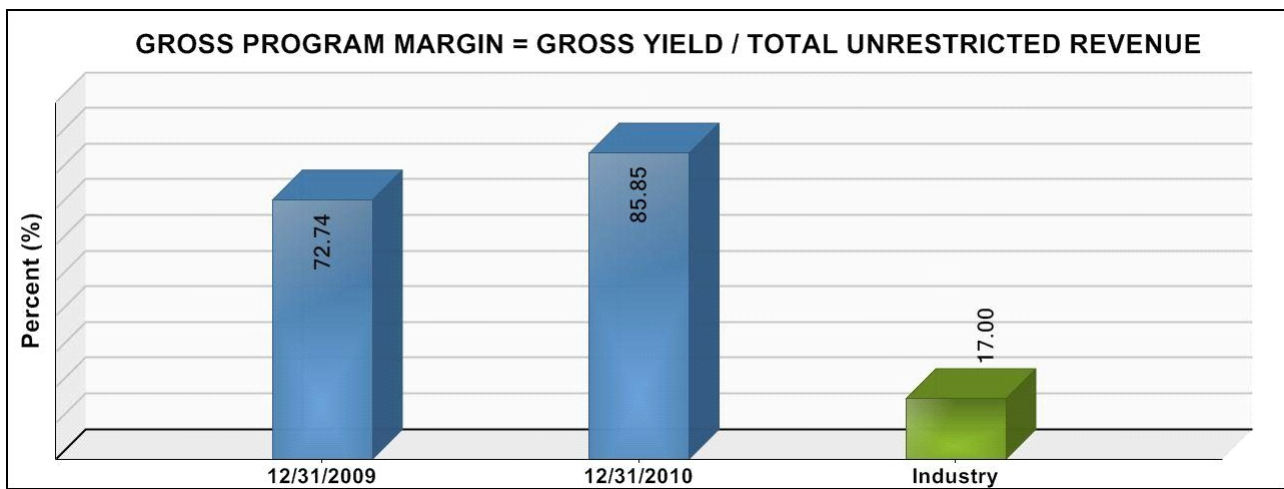
A measure of whether the trends in profit are favorable for the organization.



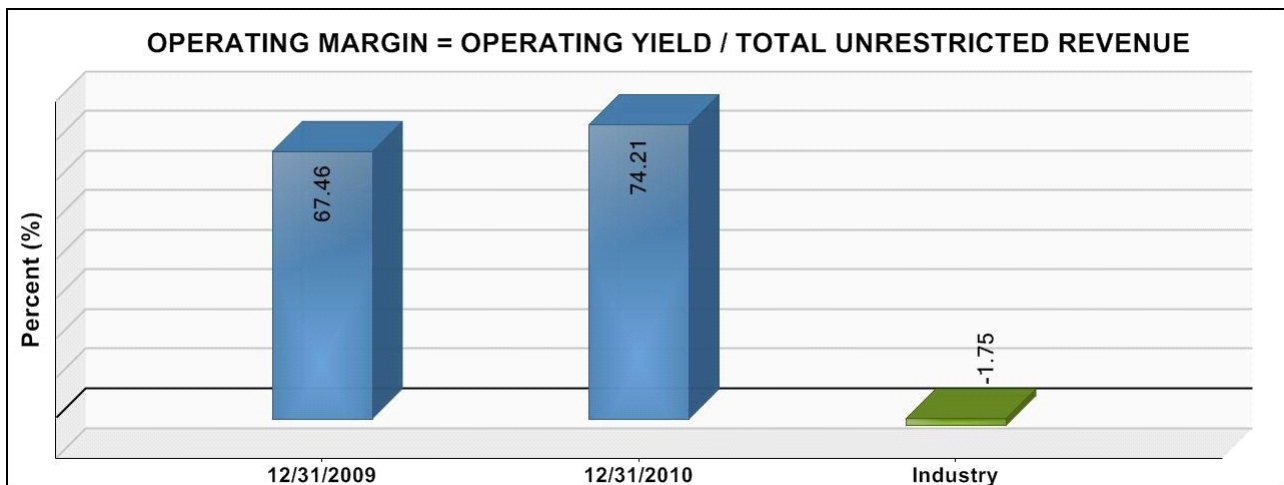
The organization has increased both its revenues and its operating margin this period, and as a result is seeing a net gain in dollars. This NPO's operating margin is strong, both overall and compared to the operating margins of sector peers. In general, the organization is performing quite well with respect to operating yield. Whenever an NPO has a solid operating margin and increases its operating yield concurrently, most other aspects of the organization's finances will fall into place. This will likely even help the organization's cash position to improve over time. In short, this nonprofit's results are quite good in this area of the report.

The reason that the operating margin is important is because it represents an NPO's net gain percentage -- how efficiently the NPO is using its revenues to fund its programs. At a basic level, the operating margin indicates how effective the organization is at managing its revenue dollars. This NPO has a healthy operating margin, even compared to that of similar organizations, as shown in the graph area of the report. Over time, maintaining such a strong margin should provide the nonprofit with an advantage over its peers because this organization will be able to use its net surplus dollars to invest in future revenue and program service growth.

¹ Operating yield (net operating gain/loss) is the nonprofit equivalent of net profit.



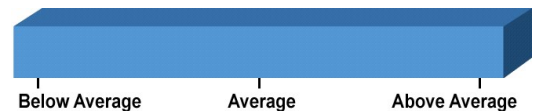
This number indicates the percentage of revenue that is left over after paying for program expenses. It is an important statistic that can be used in business planning because it indicates how many cents of gross program profit can be generated by future revenue and also what percentage of revenue the organization can use for other expenses such as administration and fundraising.



A very important number. In fact, over time, it is one of the more important barometers that we look at. It measures how many surplus cents the organization is generating for every dollar it sells. This is a very important number in preparing forecasts.

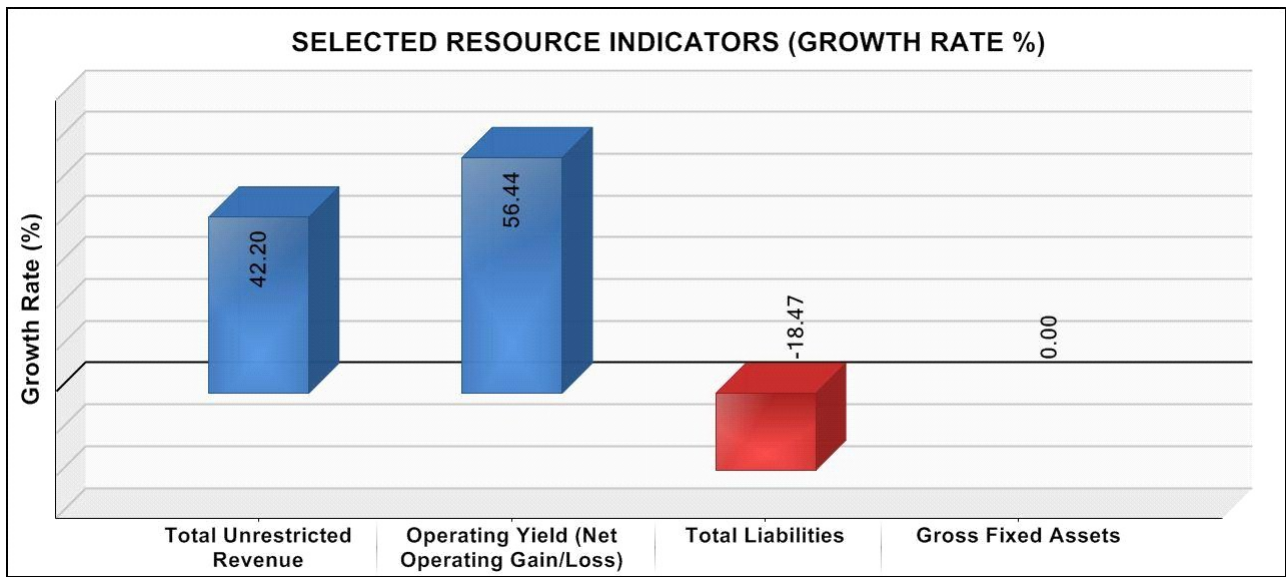
REVENUE

A measure of how revenue is growing and how it lends itself to the organization's program services.



The organization's revenues have risen significantly this period, even relative to the revenue growth of other nonprofits in this sector. Even better (from a financial standpoint) is that the organization has increased revenues without changing the asset base very much. The organization has simply found a way to increase revenues without making long-term capital expenditures. This dynamic is unequivocally fiscally sound; on the other hand, management needs to ensure that the current asset level can support the higher revenue base from a programming standpoint.

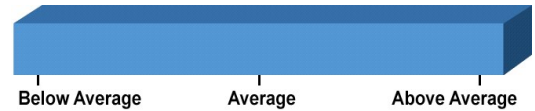
If the organization can continue to increase revenues over the long run, it should be able to improve and expand its program offerings if expenses are managed correctly. **The challenge now is to determine what factor is responsible for the revenue increase and to leverage it.** For example, asset levels did not need to change much to drive in higher revenues. Managers should determine which resources are helping to achieve programming objectives and then employ those resources in the right way.



The next two sections will examine how effectively the organization is using two of its most important resources: borrowed funds and assets. Ultimately, effectiveness here is determined by comparing changes in these resources to changes in the organization's revenue level. Resources are costs that should be used to leverage higher revenues, since higher revenues are necessary to improve and expand the organization's program services and make progress toward its mission.

BORROWING

A measure of how responsibly the organization is borrowing and how effectively it is managing debt.

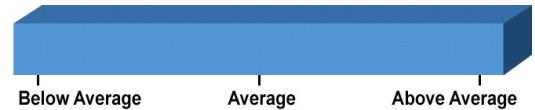


In this case, revenues increased by 42.20% while debt was lowered. In other words, a reduction in total debt coincided with improved revenues, at least for this period. Not only this, but the operating margins and overall liquidity actually improved. This is a very good situation. Revenue was able to expand without additional debt. This dynamic should help long-term operating yields, especially if it can be continued over multiple periods.

Capacity planning is a challenge here. This involves simply thinking out into the future: How long can revenues improve without increasing borrowing? Analyzing the relationship between investments in resources such as assets and revenue improvement, as well as effectively forecasting expenses and cash flow, can help answer this question and lead to the best borrowing policies for the near future.

ASSETS

A measure of how effectively the organization is utilizing their gross fixed assets.



This period, revenues increased significantly but fixed asset levels stayed relatively flat. This means that: 1) Revenues were able to grow without the addition of assets, and 2) The organization **may** not need any more assets to continue to increase revenues at this specific time. In other words, the organization may be able to grow a bit more with the level of assets currently in place. Over the long run, this should help to improve operating margins, which also rose this period. An improvement in operating margins is an indication of improved efficiency, as the organization has a relatively stable asset base.

RAW DATA

	12/31/2009	12/31/2010
Statement of Activities		
Program Service Revenue	\$391	\$17,420
Contributions	\$95,305	\$154,141
Government Grants	\$132,543	\$153,000
Investment Revenue	\$0	\$0
Membership Dues	\$0	\$0
Other Operating Revenue	\$0	\$0
Net Assets Released From Restrictions	\$0	\$0
Total Unrestricted Revenue	\$228,239	\$324,561
Program Service Expenses	\$62,223	\$45,932
Gross Yield	\$166,016	\$278,629
Gross Program Margin	72.74%	85.85%
Fundraising Expenses	\$482	\$21,347
Administration Expenses	\$11,568	\$16,414
Depreciation and Amortization	\$0	\$0
Interest Expense	\$0	\$0
Other Operating Expenses	\$0	\$0
Total Operating Expenses	\$74,273	\$83,693
Operating Yield (Net Operating Gain/Loss)	\$153,966	\$240,868
Operating Margin	67.46%	74.21%
Other Inflows	\$0	\$0
Other Outflows	\$0	\$0
Total Change In Net Assets	\$153,966	\$240,868

	12/31/2009	12/31/2010
Statement of Financial Position		
Total Cash and Cash Equivalents	\$0	\$0
Total Receivables	\$15,687	\$69,136
Accounts Receivable	\$15,687	\$69,136
Inventory	\$0	\$0
Current Investments	\$0	\$0
Other Current Assets	\$0	\$2,000
Total Current Assets	\$15,687	\$71,136
Gross Fixed Assets	\$0	\$0
Accumulated Depreciation	\$0	\$0
Net Fixed Assets	\$0	\$0
Long Term Investment Assets	\$0	\$0
Other Assets	\$0	\$0
Total Assets	\$15,687	\$71,136
Payables	\$28,647	\$5,357
Short Term Debt	\$0	\$0
Notes Payable / Current Portion of Long Term Debt	\$0	\$0
Other Current Liabilities	\$0	\$18,000
Total Current Liabilities	\$28,647	\$23,357
Total Long Term Liabilities	\$0	\$0
Total Liabilities	\$28,647	\$23,357
Total Net Assets	(\$12,960)	\$47,779

COMMON SIZE STATEMENTS

	12/31/2009	12/31/2010	Industry* (144)
Statement of Activities			
Program Service Revenue	0%	5%	67%
Contributions	42%	47%	7%
Government Grants	58%	47%	12%
Investment Revenue	0%	0%	7%
Membership Dues	0%	0%	0%
Other Operating Revenue	0%	0%	7%
Net Assets Released From Restrictions	0%	0%	0%
Total Unrestricted Revenue	100%	100%	100%
Program Service Expenses	27%	14%	81%
Gross Yield	73%	86%	19%
Fundraising Expenses	0%	7%	0%
Administration Expenses	5%	5%	7%
Depreciation and Amortization	0%	0%	2%
Interest Expense	0%	0%	0%
Other Operating Expenses	0%	0%	4%
Total Operating Expenses	33%	26%	94%
Operating Yield (Net Operating Gain/Loss)	67%	74%	6%
Other Inflows	0%	0%	2%
Other Outflows	0%	0%	2%
Total Change In Net Assets	67%	74%	6%

	12/31/2009	12/31/2010	Industry* (144)
Statement of Financial Position			
Total Cash and Cash Equivalents	0%	0%	36%
Total Receivables	100%	97%	6%
Accounts Receivable	100%	97%	N/A
Inventory	0%	0%	3%
Current Investments	0%	0%	0%
Other Current Assets	0%	3%	3%
Total Current Assets	100%	100%	69%
Gross Fixed Assets	0%	0%	43%
Accumulated Depreciation	0%	0%	14%
Net Fixed Assets	0%	0%	29%
Long Term Investment Assets	0%	0%	1%
Other Assets	0%	0%	1%
Total Assets	100%	100%	100%
Payables	183%	8%	4%
Short Term Debt	0%	0%	0%
Notes Payable / Current Portion of Long Term Debt	0%	0%	0%
Other Current Liabilities	0%	25%	5%
Total Current Liabilities	183%	33%	10%
Total Long Term Liabilities	0%	0%	8%
Total Liabilities	183%	33%	19%
Total Net Assets	N/A	67%	81%

*The industry common size figures shown above were taken from all nonprofit organizations with NTEE code W20 for all years in all areas with yearly revenue under \$1 million.

SECTOR SCORECARD

Financial Indicator	Current Period	Sector Range	Distance from Sector
Program Efficiency = Program Service Expenses / Total Expenses	0.55	0.74 to 0.88	-25.68%
Explanation: Shows the basic relationship between program expenses and total expenses. The best outcome would be a ratio close to 1, where the majority paid by a nonprofit would go towards "programs". This ratio is typically keenly watched by employees, managers, Board members, donors, and contributors. It tends to be one of the more important metrics that many nonprofits use in assessing performance.			
Revenue Composition = Unrestricted Program Service Revenue / Total Unrestricted Revenue	0.05	0.10 to 0.40	-50.00%
Explanation: This metric shows the composition of the organization's revenue stream. Specifically, it shows how many cents in program revenue there are for each dollar of revenue generated. Some people like to look at this to see how dependent the entity is on outside funding.			
Operating Reliance = Unrestricted Program Service Revenue / Total Expenses	0.21	0.10 to 0.40	0.00%
Explanation: Shows how able a nonprofit entity is to pay for total expenses from program revenues alone. Many times (although not always) program revenues are more predictable and consistent sources of money and, therefore, it is a point of interest to see how able a nonprofit is to liquidate expenses from just program revenue. The ideal score would be 1 or even above 1 in very rare cases.			
Fundraising Efficiency = Unrestricted Contributions / Unrestricted Fundraising Expenses	7.22	3.00 to 6.00	+20.33%
Explanation: Shows how much contribution revenue a nonprofit can generate from fundraising activities/expenses. The ideal relationship is a high number, which would mean that the nonprofit is able to generate a multiple of how much it costs to do fundraising.			
Current Ratio = Total Current Assets / Total Current Liabilities	3.05	2.00 to 5.00	0.00%
Explanation: Generally, this metric measures the overall liquidity position of an organization. It is certainly not a perfect barometer, but it is a good one. Watch for big decreases in this number over time. Make sure the accounts listed in "current assets" (numerator) are collectible. The higher the ratio, the more liquid the organization is.			
Quick Ratio = (Cash + Total Receivables) / Total Current Liabilities	2.96	1.50 to 3.50	0.00%
Explanation: This is another good indicator of liquidity, although by itself, it is not a perfect one. If there are receivable accounts included in the numerator, they should be collectible. Look at the length of time the organization has to pay the amount listed in the denominator (current liabilities). The higher the number, the stronger the organization.			
Receivable Days = (Total Receivables / Total Unrestricted Revenue) * 365	77.75 Days	20.00 to 50.00 Days	-55.50%
Explanation: This number reflects the average length of time required to collect cash from receivable accounts such as pledged contributions and/or program services transactions completed using credit. It is crucial to maintaining positive liquidity.			
Receivable Days Less Contributions = ((Total Receivables - Contributions Receivable) / (Total Unrestricted Revenue - Contributions)) * 365	148.07 Days	N/A	N/A
Explanation: This number reflects the average length of time required to collect cash from all receivable accounts except pledged contributions. It is crucial to maintaining positive liquidity.			
Payable Days = (Payables / Program Service Expenses) * 365	42.57 Days	15.00 to 45.00 Days	0.00%
Explanation: This ratio shows the average number of days that lapse between the purchase of material and labor, and payment for them. It is a rough measure of how timely an organization is in meeting payment obligations.			
Gross Program Margin = Gross Yield / Total Unrestricted Revenue	85.85%	10.00% to 24.00%	+257.71%
Explanation: This number indicates the percentage of revenue that is left over after paying for program			

expenses. It is an important statistic that can be used in business planning because it indicates how many cents of gross program profit can be generated by future revenue and also what percentage of revenue the organization can use for other expenses such as administration and fundraising.

Operating Margin	74.21%	-3.50% to 0.00%	+74.21%
= Operating Yield / Total Unrestricted Revenue			

Explanation: A very important number. In fact, over time, it is one of the more important barometers that we look at. It measures how many surplus cents the organization is generating for every dollar it sells. This is a very important number in preparing forecasts.

NOTE: Exceptions are sometimes applied when calculating the Financial Indicators. Generally, this occurs when the inputs used to calculate the ratios are zero and/or negative.

READER: Financial analysis is not a science; it is about interpretation and evaluation of financial events. Therefore, some judgment will always be part of our reports and analyses. Before making any financial decision, always consult an experienced and knowledgeable professional (accountant, banker, financial planner, attorney, etc.).