Finances 201
Michigan Primary Care Association
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Presented by
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Agenda

- Financial Landscape
- Control & Oversight
- Board Tools
Financial Landscape: Sources of Funding

Distribution of Revenue by Source for Federally-Funded Federally Qualified Health Centers, 2010 - Michigan vs. 50-State Comparison.

Source: Kaiser State Health Facts
Financial Landscape: CFO Perspective

- **Trends and outside factors** - Changing environment
- **Internal finances**: Cash flow is critical – timing is everything
- **Board and finance committee** is being asked to understand a lot, and it’s difficult to fully communicate everything significant about the organization

*CFO, on board communication -- “Hope they review materials...not enough time to cover everything”*
Financial Landscape: Nonprofit Community

According to a 2012 national survey of 4,607 nonprofit organizations,

- 25% had zero or one months operating cash on hand
- 47% had zero to three months cash

• Source: Nonprofit Finance Fund, annual survey of
Financial Landscape: FQHC’s

• Finance, administrative capacity (do more with less)
• Accounting matters (reserves and estimations)
• Cash flow (Billing and collection)
• Compliance (risk of rejected billings)
• Board
Board Tools:
Indicators of Financial Health

- Cash flow
- Working capital
- Long-term liabilities vs. Net Assets
- Accounts payable
- Net asset growth
- Expenditures at plan
- Revenues at plan

Taken from HRSA policy information notice: “Creating a Financial Recovery Plan”
Board Tools: Indicators

- Uniform Data Set
- Changes in available, unrestricted net assets
- Sustainability of financial projections
- Other?

Review cfoSquare™
Surplus (Deficit) as a % of Annual Budget

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Board Tools: Cash Reserve Considerations

- Total Cash
  - Working Capital: $55
  - Operating Reserve: $150
  - Restricted Reserve: $150

Total: $400
In spring 2008, a Nonprofit Operating Reserves Initiative Workgroup (NORI), comprising experienced individuals representing multiple facets of the nonprofit sector was convened with the objective of:

1. Defining an “Operating Reserve Ratio”
2. Using the ratio to focus attention on the importance of nonprofit financial stability.

NORI Recommended Operating Reserve Policy

- Establish a minimum Operating Reserve Ratio Policy

- Calculated in terms of a percentage (operating reserves divided by the annual expense budget) or number of months (operating reserves divided by the average monthly expense budget).

- The minimum operating reserve ratio at the lowest point during the year suggested by the Workgroup is 25 percent or 3 months of the annual expense budget.
Operating Reserves Policy Toolkit Workgroup was formed as a logical follow up to the Nonprofit Operating Reserves Initiative Workgroup. The workgroup developed:

“OPERATING RESERVE POLICY TOOLKIT FOR NONPROFIT ORGANIZATIONS “

To serve as a technical reference for nonprofit board and staff policy committees, as well as their financial consultants and professionals, to respond to the whitepaper
Creating The Reserve Policy

**Recommended MINIMUM Operating Reserve:**
Toolkit recommends a minimum Operating Reserve ratio, at the lowest point during the year, of 25 percent or 3 months of the annual expense budget.

**Risk factors** may place a greater need for a higher operating reserve
- Revenue volatility
- Expense volatility
Operating Reserve Risk Factors
(a starting point for discussion)

LO  Revenue Risk  HI
LO    MEDIUM RISK    MEDIUM RISK
   LOW RISK    HIGH RISK

Discussion

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Developing A Written Policy

Every organization should have a board-approved policy on operating reserves. A written Operating Reserve Policy should include the following elements:

• **Statement of Purpose** – The reason for establishing the operating reserve.

• **Policy** – The objective(s) to be achieved.

• **Definitions** – Descriptions of the meaning of key terms used in the policy.
Developing A Written Policy

• **Uses** – Circumstances in which the operating reserves can be used.

• **Governance** – Procedures for approving the use of operating reserves, persons authorized to establish policies and oversee the operating reserve ratio and balance; provisions for recalculating the formula of the operating reserve balance and distributing the excess operating reserve balance, or funding operating reserve deficiencies.
Control and Oversight:

Tone at the Top

- Integrity and ethical values
- Commitment to competence
- Board/committee participation
- Management philosophy
- Organizational structure
- Assignment of authority
- HR policies/proc.

[Diagram showing a pyramid with layers labeled Board, Leadership, Team]
Control and Oversight: Segregation of Duties

Authorize → Custody → Record
Control and Oversight: Vulnerabilities

Fraud Scenario requires:

- Need
- Opportunity
- Rationalization

*Board and management are responsible for preventing “opportunity” to commit fraud, as part of control environment*