

# COMMUNITY ACTION CASE STUDY

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## CASE STUDY CAP AGENCY YEAR 1

Case Study CAP Agency is a non profit organization that provides various community service programs funded by federal, state, and local government grants. CAP Agency is a December 31 year end. This organization has been in existence for over thirty years and is well respected for their community service efforts. A summary of the audited financial statements as well as key information regarding the Agency are as follows:

### **Independent Auditors Report**

- An unmodified opinion was issued

### **Financial**

- Statement of Financial Position and Statement of Activities are summarized on the following worksheets
- Key Footnotes:
  - **Cash Concentration** - \$1,066,000 of cash in excess of FDIC limits
  - **Line of Credit** - \$2,000,000 (Operating) – no outstanding amount
  - **Lease Commitments** - \$1,200,000 over next 4 years

### **Auditor's Report on Financial Reporting**

- No deficiencies noted – No non-compliance noted

### **Auditor's Report on Major Programs**

- No deficiencies noted – No non-compliance noted

### **Schedule of Findings and Questioned Costs**

- No findings or questioned costs were identified during the year

### **Key information regarding the Agency**

- There was no significant turnover in the Agency
- The Board meets on a monthly basis
- All accounts are reconciled timely
- Agency operates approximately 50 programs and the majority are fully spent
- Funding source monitoring reports did not identify any major program or financial findings
- All policies and procedure manuals were reviewed and updated
- Year-end audit was completed by June 30

**CASE STUDY CAP AGENCY**

	<u>Year 1</u>
<b>ASSETS</b>	
CASH	458,000
INVESTMENTS	2,000
ACCOUNTS RECEIVABLE-GRANTS	3,182,000
ACCOUNTS RECEIVABLE-OTHER	665,000
OTHER ASSETS	341,000
<b>TOTAL CURRENT ASSETS</b>	<b>4,648,000</b>
 <b>PROPERTY &amp; EQUIPMENT</b>	 <b>5,764,000</b>
 <b>LONG-TERM ASSETS</b>	
OTHER INVESTMENTS	236,000
<b>TOTAL LONG-TERM ASSETS</b>	<b>236,000</b>
 <b>TOTAL ASSETS</b>	 <b>10,648,000</b>
 <b>CURRENT LIABILITIES</b>	
LINE OF CREDIT	0
CURRENT PORTION OF L/T DEBT	27,000
CASH OVERDRAFT	0
ACCOUNTS PAYABLE	529,000
ACCRUED PERSONNEL EXPENSE	570,000
ACCRUED VACATION	332,000
GRANT FUNDS RECEIVED IN ADVANCE	3,062,000
<b>TOTAL CURRENT LIABILITIES</b>	<b>4,520,000</b>
 LONG-TERM DEBT	527,000
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>527,000</b>
 <b>TOTAL LIABILITIES</b>	 <b>5,047,000</b>
 <b>NET ASSETS</b>	
UNRESTRICTED NET ASSETS	1,192,000
TEMPORARILY RESTRICTED NET ASSETS	2,676,000
PERMANENTLY RESTRICTED	1,733,000
<b>TOTAL NET ASSETS</b>	<b>5,601,000</b>
 <b>TOTAL LIABILITIES &amp; NET ASSETS</b>	 <b>10,648,000</b>

## CASE STUDY CAP AGENCY

<b>REVENUE</b>	<b><u>Year 1</u></b>
GRANT REVENUE	27,930,000
PROGRAM INCOME	3,203,000
CONTRIBUTIONS	670,000
RENTAL INCOME	370,000
GAIN ON DISPOSAL OF ASSETS IN KIND	94,000
	<hr/>
<b>TOTAL REVENUE</b>	<b>1,926,000</b>
	<hr/>
	<b>34,193,000</b>
	<hr/>
<b>EXPENDITURES</b>	
WAGES & SALARIES	10,835,000
FRINGE BENEFITS	2,371,000
TRAVEL / TRANSPORTATION	436,000
BUILDING COSTS	1,514,000
SUPPLIES	1,187,000
OPERATING COSTS	943,000
OTHER COSTS	244,000
PROFESSIONAL SERVICES	366,000
CLIENT ASSISTANCE	12,206,000
SPECIAL EVENTS	299,000
EQUIP./CONSTR./RENOVATION	519,000
DEPRECIATION	461,000
INDIRECT COSTS	1,476,000
IN KIND	1,926,000
CAPITAL ADDITIONS	(548,000)
PRIOR PERIOD ADJUSTMENT	
	<hr/>
<b>TOTAL EXPENDITURES</b>	<b>34,235,000</b>
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<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>(42,000)</b>
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**CASE STUDY CAP AGENCY**

**RATIOS**

Year 1

<b>CURRENT RATIO</b>	102.83%
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$$\frac{\text{current assets}}{\text{current liabilities}}$$
*current assets as a % of current liabilities*

<b>PAY-OFF RATIO</b>	8.1
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$$\frac{(\text{cash} + \text{a/r})}{\text{accts payable}}$$
*number of times cash + a/r can pay-off a/p*

<b>AVERAGE DAYS CASH ON HAND</b>	3.7
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$$\frac{\text{cash \& equivalents}}{\text{avg exp's per day}}$$

<b>AVERAGE DAYS IN ACCOUNTS RECEIVABLE</b>	31.0
--	------

$$\frac{\text{accounts receivable}}{\text{avg program revenue per day}}$$
*avg number of days grant receivable in accts receivable*

<b>AVERAGE DAYS IN ACCOUNTS PAYABLE</b>	4.3
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$$\frac{\text{accts payable}}{\text{avg exp's per day}}$$
*avg number of days exp's in accts payable*

<b>DEBT TO NET ASSETS RATIO</b>	90.11%
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$$\frac{\text{total liabilities}}{\text{total net assets}}$$
*liabilities as a % of net assets*

<b>AVERAGE REVENUE PER DAY</b>	\$124,104
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$$\frac{\text{total revenue - in kind}}{260 \text{ working days}}$$

<b>AVERAGE EXPENSES PER DAY</b>	\$124,265
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$$\frac{\text{total expenses - in kind}}{260 \text{ working days}}$$

<b>ADMINISTRATIVE EXP'S TO TOTAL EXP'S</b>	4.31%
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$$\frac{\text{administrative + general exp's}}{\text{total expenses}}$$
*administrative + general exp's as a % of total expenses*

## CASE STUDY CAP AGENCY YEAR 2

A summary of the audit reports as well as key information regarding the Agency are as follows:

### **Independent Auditors Report**

- An unmodified opinion was issued

### **Financial**

- Statement of financial position and Statement of Activities are summarized on the following worksheets
- Key Footnotes:
  - **Cash Concentration** - \$969,000 of cash in excess of FDIC limits but Agency has a sweep agreement with a financial institution
  - **Lines of Credit** - \$2,000,000 (Operating)– no outstanding amount, \$350,000 (Construction) – outstanding balance \$241,000
  - **Lease Commitments** - \$2,600,000 over next 5 years

### **Auditor's Report on Financial Reporting**

- No deficiencies noted – No non-compliance noted

### **Auditor's Report on Major Programs**

- No deficiencies noted – No non-compliance noted

### **Schedule of Findings and Questioned Costs**

- No findings or questioned costs were identified during the year

### **Key information regarding the Agency**

- There was no significant turnover in the Agency
- The Agency added over 25 new employees during the year
- The Board meets on a monthly basis
- All accounts are reconciled timely
- Agency now operates approximately 75 programs and the majority are fully spent
- Funding source monitoring reports did not identify any program or financial findings
- All policies and procedure manuals were reviewed and updated
- Year-end audit was completed by September 30

**CASE STUDY CAP AGENCY**

<b>ASSETS</b>	<b><u>Year 1</u></b>	<b><u>Year 2</u></b>	<b><u>CHANGE</u></b>
CASH	458,000	0	(458,000)
INVESTMENTS	2,000	2,000	0
ACCOUNTS RECEIVABLE-GRANTS	3,182,000	7,166,000	3,984,000
ACCOUNTS RECEIVABLE-OTHER	665,000	800,000	135,000
OTHER ASSETS	341,000	797,000	456,000
<b>TOTAL CURRENT ASSETS</b>	<b><u>4,648,000</u></b>	<b><u>8,765,000</u></b>	<b><u>4,117,000</u></b>
<b>PROPERTY &amp; EQUIPMENT</b>	<b><u>5,764,000</u></b>	<b><u>5,686,000</u></b>	<b><u>(78,000)</u></b>
<b>LONG-TERM ASSETS</b>			
OTHER INVESTMENTS	236,000	65,000	(171,000)
<b>TOTAL LONG-TERM ASSETS</b>	<b><u>236,000</u></b>	<b><u>65,000</u></b>	<b><u>(171,000)</u></b>
<b>TOTAL ASSETS</b>	<b><u>10,648,000</u></b>	<b><u>14,516,000</u></b>	<b><u>3,868,000</u></b>
<b>CURRENT LIABILITIES</b>			
LINE OF CREDIT	0	241,000	241,000
CURRENT PORTION OF L/T DEBT	27,000	30,000	3,000
CASH OVERDRAFT	0	88,000	88,000
ACCOUNTS PAYABLE	529,000	3,040,000	2,511,000
ACCRUED PERSONNEL EXPENSE	570,000	867,000	297,000
ACCRUED VACATION	332,000	385,000	53,000
GRANT FUNDS RECEIVED IN ADVANCE	3,062,000	3,927,000	865,000
<b>TOTAL CURRENT LIABILITIES</b>	<b><u>4,520,000</u></b>	<b><u>8,578,000</u></b>	<b><u>4,058,000</u></b>
LONG-TERM DEBT	527,000	499,000	(28,000)
<b>TOTAL LONG-TERM LIABILITIES</b>	<b><u>527,000</u></b>	<b><u>499,000</u></b>	<b><u>(28,000)</u></b>
<b>TOTAL LIABILITIES</b>	<b><u>5,047,000</u></b>	<b><u>9,077,000</u></b>	<b><u>4,030,000</u></b>
<b>NET ASSETS</b>			
UNRESTRICTED NET ASSETS	1,192,000	1,026,000	(166,000)
TEMPORARILY RESTRICTED NET ASSETS	2,676,000	2,570,000	(106,000)
PERMANENTLY RESTRICTED	1,733,000	1,843,000	110,000
<b>TOTAL NET ASSETS</b>	<b><u>5,601,000</u></b>	<b><u>5,439,000</u></b>	<b><u>(162,000)</u></b>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b><u>10,648,000</u></b>	<b><u>14,516,000</u></b>	<b><u>3,868,000</u></b>



**CASE STUDY CAP AGENCY**

<b>REVENUE</b>	<b><u>Year 1</u></b>	<b><u>Year 2</u></b>	<b><u>CHANGE</u></b>
GRANT REVENUE	27,930,000	39,971,000	12,041,000
PROGRAM INCOME	3,203,000	3,786,000	583,000
CONTRIBUTIONS	670,000	487,000	(183,000)
RENTAL INCOME	370,000	377,000	7,000
GAIN ON DISPOSAL OF ASSETS IN KIND	94,000	0	(94,000)
	1,926,000	2,976,000	1,050,000
<b>TOTAL REVENUE</b>	<b><u>34,193,000</u></b>	<b><u>47,597,000</u></b>	<b><u>13,404,000</u></b>
<b>EXPENDITURES</b>			
WAGES & SALARIES	10,835,000	12,283,000	1,448,000
FRINGE BENEFITS	2,371,000	2,866,000	495,000
TRAVEL / TRANSPORTATION	436,000	386,000	(50,000)
BUILDING COSTS	1,514,000	1,694,000	180,000
SUPPLIES	1,187,000	1,372,000	185,000
OPERATING COSTS	943,000	1,070,000	127,000
OTHER COSTS	244,000	448,000	204,000
PROFESSIONAL SERVICES	366,000	361,000	(5,000)
CLIENT ASSISTANCE	12,206,000	21,624,000	9,418,000
SPECIAL EVENTS	299,000	195,000	(104,000)
EQUIP./CONSTR./RENOVATION	519,000	671,000	152,000
DEPRECIATION	461,000	507,000	46,000
INDIRECT COSTS	1,476,000	1,747,000	271,000
IN KIND	1,926,000	2,976,000	1,050,000
CAPITAL ADDITIONS	(548,000)	(441,000)	107,000
PRIOR PERIOD ADJUSTMENT			
<b>TOTAL EXPENDITURES</b>	<b><u>34,235,000</u></b>	<b><u>47,759,000</u></b>	<b><u>13,524,000</u></b>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b><u>(42,000)</u></b>	<b><u>(162,000)</u></b>	<b><u>(120,000)</u></b>

**CASE STUDY CAP AGENCY**

**RATIOS**

	<u>Year 1</u>	<u>Year 2</u>
<b>CURRENT RATIO</b>	102.83%	102.18%
$\frac{\text{current assets}}{\text{current liabilities}}$ <i>current assets as a % of current liabilities</i>		
<b>PAY-OFF RATIO</b>	8.1	2.5
$\frac{(\text{cash} + \text{a/r})}{\text{accts payable}}$ <i>number of times cash + a/r can pay-off a/p</i>		
<b>AVERAGE DAYS CASH ON HAND</b>	3.7	(0.5)
$\frac{\text{cash \& equivalents}}{\text{avg exp's per day}}$		
<b>AVERAGE DAYS IN ACCOUNTS RECEIVABLE</b>	31.0	46.4
$\frac{\text{accounts receivable}}{\text{avg program revenue per day}}$ <i>avg number of days grant receivable in accts receivable</i>		
<b>AVERAGE DAYS IN ACCOUNTS PAYABLE</b>	4.3	18.2
$\frac{\text{accts payable}}{\text{avg exp's per day}}$ <i>avg number of days exp's in accts payable</i>		
<b>DEBT TO NET ASSETS RATIO</b>	90.11%	166.89%
$\frac{\text{total liabilities}}{\text{total net assets}}$ <i>liabilities as a % of net assets</i>		
<b>AVERAGE REVENUE PER DAY</b>	\$124,104	\$171,619
$\frac{\text{total revenue - in kind}}{260 \text{ working days}}$ <span style="float: right;">38.29%</span>		
<b>AVERAGE EXPENSES PER DAY</b>	\$124,265	\$172,242
$\frac{\text{total expenses - in kind}}{260 \text{ working days}}$ <span style="float: right;">38.61%</span>		
<b>ADMINISTRATIVE EXP'S TO TOTAL EXP'S</b>	4.31%	3.66%
$\frac{\text{administrative + general exp's}}{\text{total expenses}}$ <i>administrative + general exp's as a % of total expenses</i>		

## CASE STUDY CAP AGENCY YEAR 3

A summary of the audit reports as well as key information regarding the Agency are as follows:

### **Independent Auditors Report**

- An unmodified opinion was issued

### **Financial**

- Statement of financial position and Statement of Activities are summarized on the following worksheets
- Key Footnotes:
  - **Line of Credit** - \$2,750,000 (Operating) – no outstanding amount, \$600,000 (Construction)– outstanding balance \$62,000
  - **Lease Commitments** - \$2,379,000 over next 5 years - \$1,005,000 within the next year

### **Auditor's Report on Financial Reporting**

- Material weakness internal control and compliance issue noted

### **Auditor's Report on Major Programs**

- No deficiencies noted – No non-compliance noted

### **Schedule of Findings and Questioned Costs**

- **FINANCIAL STATEMENT AUDIT** - A material weakness was identified relating to the timely reconciliation of bank accounts. There were no findings related to major programs.

### **Key information regarding the Agency**

- The CFO retired in during the year
- A new CFO was hired from outside of the organization
- The Assistant CFO retired during the year
- A new Assistant CFO was hired from outside of the organization
- The Board meets on a monthly basis – financial information no longer current
- The Agency is now operating approximately 90 programs
- Funding source monitoring reports identified some operational and financial findings but the Agency did respond and resolve on a timely basis
- Year-end audit was completed by September 30

**CASE STUDY CAP AGENCY**

<b>ASSETS</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>CHANGE</b>
CASH	458,000	0	0	0
INVESTMENTS	2,000	2,000	0	(2,000)
ACCOUNTS RECEIVABLE-GRANTS	3,182,000	7,166,000	8,320,000	1,154,000
ACCOUNTS RECEIVABLE-OTHER	665,000	800,000	812,000	12,000
OTHER ASSETS	341,000	797,000	199,000	(598,000)
<b>TOTAL CURRENT ASSETS</b>	<b>4,648,000</b>	<b>8,765,000</b>	<b>9,331,000</b>	<b>566,000</b>
<b>PROPERTY &amp; EQUIPMENT</b>	<b>5,764,000</b>	<b>5,686,000</b>	<b>5,514,000</b>	<b>(172,000)</b>
<b>LONG-TERM ASSETS</b>				
OTHER INVESTMENTS	236,000	65,000	0	(65,000)
<b>TOTAL LONG-TERM ASSETS</b>	<b>236,000</b>	<b>65,000</b>	<b>0</b>	<b>(65,000)</b>
<b>TOTAL ASSETS</b>	<b>10,648,000</b>	<b>14,516,000</b>	<b>14,845,000</b>	<b>329,000</b>
<b>CURRENT LIABILITIES</b>				
LINE OF CREDIT	0	241,000	62,000	(179,000)
CURRENT PORTION OF L/T DEBT	27,000	30,000	32,000	2,000
CASH OVERDRAFT	0	88,000	546,000	458,000
ACCOUNTS PAYABLE	529,000	3,040,000	2,207,000	(833,000)
ACCRUED PERSONNEL EXPENSE	570,000	867,000	653,000	(214,000)
ACCRUED VACATION	332,000	385,000	412,000	27,000
GRANT FUNDS RECEIVED IN ADVANCE	3,062,000	3,927,000	5,700,549	1,773,549
<b>TOTAL CURRENT LIABILITIES</b>	<b>4,520,000</b>	<b>8,578,000</b>	<b>9,612,549</b>	<b>1,034,549</b>
LONG-TERM DEBT	527,000	499,000	464,000	(35,000)
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>527,000</b>	<b>499,000</b>	<b>464,000</b>	<b>(35,000)</b>
<b>TOTAL LIABILITIES</b>	<b>5,047,000</b>	<b>9,077,000</b>	<b>10,076,549</b>	<b>999,549</b>
<b>NET ASSETS</b>				
UNRESTRICTED NET ASSETS	1,192,000	1,026,000	583,000	(443,000)
TEMPORARILY RESTRICTED NET ASSETS	2,676,000	2,570,000	2,508,000	(62,000)
PERMANENTLY RESTRICTED	1,733,000	1,843,000	1,678,000	(165,000)
<b>TOTAL NET ASSETS</b>	<b>5,601,000</b>	<b>5,439,000</b>	<b>4,769,000</b>	<b>(670,000)</b>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b>10,648,000</b>	<b>14,516,000</b>	<b>14,845,549</b>	<b>329,549</b>

**CASE STUDY CAP AGENCY**

<b>REVENUE</b>	<b><u>Year 1</u></b>	<b><u>Year 2</u></b>	<b><u>Year 3</u></b>	<b><u>CHANGE</u></b>
GRANT REVENUE	27,930,000	39,971,000	44,797,000	4,826,000
PROGRAM INCOME	3,203,000	3,786,000	4,603,000	817,000
CONTRIBUTIONS	670,000	487,000	715,000	228,000
RENTAL INCOME	370,000	377,000	355,000	(22,000)
GAIN ON DISPOSAL OF ASSETS IN KIND	94,000	0	0	0
	1,926,000	2,976,000	24,000	(2,952,000)
<b>TOTAL REVENUE</b>	<b>34,193,000</b>	<b>47,597,000</b>	<b>50,494,000</b>	<b>2,897,000</b>
<b>EXPENDITURES</b>				
WAGES & SALARIES	10,835,000	12,283,000	13,220,000	937,000
FRINGE BENEFITS	2,371,000	2,866,000	3,209,000	343,000
TRAVEL / TRANSPORTATION	436,000	386,000	485,000	99,000
BUILDING COSTS	1,514,000	1,694,000	2,140,000	446,000
SUPPLIES	1,187,000	1,372,000	1,533,000	161,000
OPERATING COSTS	943,000	1,070,000	1,312,000	242,000
OTHER COSTS	244,000	448,000	206,000	(242,000)
PROFESSIONAL SERVICES	366,000	361,000	867,000	506,000
CLIENT ASSISTANCE	12,206,000	21,624,000	23,242,000	1,618,000
SPECIAL EVENTS	299,000	195,000	149,000	(46,000)
EQUIP./CONSTR./RENOVATION	519,000	671,000	2,570,000	1,899,000
DEPRECIATION	461,000	507,000	446,000	(61,000)
INDIRECT COSTS	1,476,000	1,747,000	1,942,000	195,000
IN KIND	1,926,000	2,976,000	24,000	(2,952,000)
CAPITAL ADDITIONS	(548,000)	(441,000)	(181,000)	260,000
PRIOR PERIOD ADJUSTMENT				0
<b>TOTAL EXPENDITURES</b>	<b>34,235,000</b>	<b>47,759,000</b>	<b>51,164,000</b>	<b>3,405,000</b>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>(42,000)</b>	<b>(162,000)</b>	<b>(670,000)</b>	<b>(508,000)</b>

**CASE STUDY CAP AGENCY**

**RATIOS**

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
<b>CURRENT RATIO</b>	102.83%	102.18%	97.07%
$\frac{\text{current assets}}{\text{current liabilities}}$ <i>current assets as a % of current liabilities</i>			
<b>PAY-OFF RATIO</b>	8.1	2.5	3.3
$\frac{(\text{cash} + \text{a/r})}{\text{accts payable}}$ <i>number of times cash + a/r can pay-off a/p</i>			
<b>AVERAGE DAYS CASH ON HAND</b>	3.7	(0.5)	(2.8)
$\frac{\text{cash \& equivalents}}{\text{avg exp's per day}}$			
<b>AVERAGE DAYS IN ACCOUNTS RECEIVABLE</b>	31.0	46.4	47.0
$\frac{\text{accounts receivable}}{\text{avg program revenue per day}}$ <i>avg number of days grant receivable in accts receivable</i>			
<b>AVERAGE DAYS IN ACCOUNTS PAYABLE</b>	4.3	18.2	14.0
$\frac{\text{accts payable}}{\text{avg exp's per day}}$ <i>avg number of days exp's in accts payable</i>			
<b>DEBT TO NET ASSETS RATIO</b>	90.11%	166.89%	211.29%
$\frac{\text{total liabilities}}{\text{total net assets}}$ <i>liabilities as a % of net assets</i>			
<b>AVERAGE REVENUE PER DAY</b>	\$124,104	\$171,619	\$194,115
$\frac{\text{total revenue - in kind}}{260 \text{ working days}}$			
		38.29%	13.11%
<b>AVERAGE EXPENSES PER DAY</b>	\$124,265	\$172,242	\$196,692
$\frac{\text{total expenses - in kind}}{260 \text{ working days}}$			
		38.61%	14.20%
<b>ADMINISTRATIVE EXP'S TO TOTAL EXP'S</b>	4.31%	3.66%	3.80%
$\frac{\text{administrative + general exp's}}{\text{total expenses}}$ <i>administrative + general exp's as a % of total expenses</i>			

## CASE STUDY CAP AGENCY YEAR 4

A summary of the audit reports as well as key information regarding the Agency are as follows:

### **Independent Auditors Report**

- A qualified opinion was issued on the statement of financial position and a disclaimer of opinion on the statement of activities and cash flows. The qualification on the statement of financial position related to substantiation of equipment records.

### **Financial**

- Statement of financial position and Statement of Activities are summarized on the following worksheets
- Key Footnotes:
  - **Line of Credit** - \$3,400,000 (Operating)– outstanding balance \$3,352,000
  - **Notes payable** – 3 new notes were obtained during the year for approximately \$4,800,000
  - **Grant Funds Received in Advance** – The Agency received an advance from a funding source for approximately \$2,000,000
  - **Lease Commitments** - \$2,164,000 over next 6 years - \$913,000 within the next year
  - **Contingency** – There are several lawsuits pending against the Agency.
  - **Prior Period Adjustment** - \$333,000 of construction costs were previously expensed in 2002 that should have been capitalized and depreciated over their estimated useful life.
  - **Subsequent Event** – In 2004, the funding source previously stated requested payment of its \$2,000,000 advance. Funding source monitoring reports expressed serious concerns over financial and program operations. All significant senior management staff resigned.

### **Auditor's Report on Financial Reporting**

- Material weakness internal control and compliance issues noted

### **Auditor's Report on Major Programs**

- Material weakness internal control and compliance issue noted

### **Schedule of Findings and Questioned Costs**

- FINANCIAL STATEMENT AUDIT – Material weaknesses were identified in the following areas:
  - Source Documentation
  - Bank Reconciliation
  - Account Reconciliations
  - Failure to Promptly Request Reimbursement
  - Equipment Records
  - Operations – Over Spent Programs
  - Financial Reporting
- MAJOR FEDERAL AWARD PROGRAMS – Some or all of the material weaknesses listed above were identified in all major programs.

### **Key information regarding the Agency**

- Year-end audit was completed in January of the following year
- Board no longer receives any financial information
- All senior management from the prior year have resigned



**CASE STUDY CAP AGENCY**

<b>ASSETS</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>CHANGE</b>
CASH	458,000	0	0	0	0
INVESTMENTS	2,000	2,000	0	5,000	5,000
ACCOUNTS RECEIVABLE-GRANTS	3,182,000	7,166,000	8,320,000	6,920,000	(1,400,000)
ACCOUNTS RECEIVABLE-OTHER	665,000	800,000	812,000	427,000	(385,000)
OTHER ASSETS	341,000	797,000	199,000	172,000	(27,000)
<b>TOTAL CURRENT ASSETS</b>	<b>4,648,000</b>	<b>8,765,000</b>	<b>9,331,000</b>	<b>7,524,000</b>	<b>(1,807,000)</b>
<b>PROPERTY &amp; EQUIPMENT</b>	<b>5,764,000</b>	<b>5,686,000</b>	<b>5,514,000</b>	<b>12,881,000</b>	<b>7,367,000</b>
<b>LONG-TERM ASSETS</b>					
OTHER INVESTMENTS	236,000	65,000	0	0	0
<b>TOTAL LONG-TERM ASSETS</b>	<b>236,000</b>	<b>65,000</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>TOTAL ASSETS</b>	<b>10,648,000</b>	<b>14,516,000</b>	<b>14,845,000</b>	<b>20,405,000</b>	<b>5,560,000</b>
<b>CURRENT LIABILITIES</b>					
LINE OF CREDIT	0	241,000	62,000	3,352,000	3,290,000
CURRENT PORTION OF L/T DEBT	27,000	30,000	32,000	81,000	49,000
CASH OVERDRAFT	0	88,000	546,000	192,000	(354,000)
ACCOUNTS PAYABLE	529,000	3,040,000	2,207,000	2,772,000	565,000
ACCRUED PERSONNEL EXPENSE	570,000	867,000	653,000	462,000	(191,000)
ACCRUED VACATION	332,000	385,000	412,000	479,000	67,000
GRANT FUNDS RECEIVED IN ADVANCE	3,062,000	3,927,000	5,700,549	3,019,000	(2,681,549)
<b>TOTAL CURRENT LIABILITIES</b>	<b>4,520,000</b>	<b>8,578,000</b>	<b>9,612,549</b>	<b>10,357,000</b>	<b>744,451</b>
LONG-TERM DEBT	527,000	499,000	464,000	5,224,000	4,760,000
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>527,000</b>	<b>499,000</b>	<b>464,000</b>	<b>5,224,000</b>	<b>4,760,000</b>
<b>TOTAL LIABILITIES</b>	<b>5,047,000</b>	<b>9,077,000</b>	<b>10,076,549</b>	<b>15,581,000</b>	<b>5,504,451</b>
<b>NET ASSETS</b>					
UNRESTRICTED	1,192,000	1,026,000	583,000	4,824,000	4,241,000
TEMPORARILY RESTRICTED	2,676,000	2,570,000	2,508,000	0	(2,508,000)
PERMANENTLY RESTRICTED	1,733,000	1,843,000	1,678,000	0	(1,678,000)
<b>TOTAL NET ASSETS</b>	<b>5,601,000</b>	<b>5,439,000</b>	<b>4,769,000</b>	<b>4,824,000</b>	<b>55,000</b>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b>10,648,000</b>	<b>14,516,000</b>	<b>14,845,549</b>	<b>20,405,000</b>	<b>5,559,451</b>

**CASE STUDY CAP AGENCY**

<b>REVENUE</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>CHANGE</b>
GRANT REVENUE	27,930,000	39,971,000	44,797,000	42,762,000	(2,035,000)
PROGRAM INCOME	3,203,000	3,786,000	4,603,000	3,446,000	(1,157,000)
CONTRIBUTIONS	670,000	487,000	715,000	3,348,000	2,633,000
RENTAL INCOME	370,000	377,000	355,000	315,000	(40,000)
GAIN ON DISPOSAL OF ASSETS IN KIND	94,000	0	0	0	0
	1,926,000	2,976,000	24,000	1,712,000	1,688,000
<b>TOTAL REVENUE</b>	<b>34,193,000</b>	<b>47,597,000</b>	<b>50,494,000</b>	<b>51,583,000</b>	<b>1,089,000</b>
<b>EXPENDITURES</b>					
WAGES & SALARIES	10,835,000	12,283,000	13,220,000	0	(13,220,000)
FRINGE BENEFITS	2,371,000	2,866,000	3,209,000	0	(3,209,000)
TRAVEL / TRANSPORTATION	436,000	386,000	485,000	0	(485,000)
BUILDING COSTS	1,514,000	1,694,000	2,140,000	0	(2,140,000)
SUPPLIES	1,187,000	1,372,000	1,533,000	0	(1,533,000)
OPERATING COSTS	943,000	1,070,000	1,312,000	0	(1,312,000)
OTHER COSTS	244,000	448,000	206,000	0	(206,000)
PROFESSIONAL SERVICES	366,000	361,000	867,000	0	(867,000)
CLIENT ASSISTANCE	12,206,000	21,624,000	23,242,000	54,593,000	31,351,000
SPECIAL EVENTS	299,000	195,000	149,000	0	(149,000)
EQUIP./CONSTR./RENOVATION	519,000	671,000	2,570,000	0	(2,570,000)
DEPRECIATION	461,000	507,000	446,000	0	(446,000)
INDIRECT COSTS	1,476,000	1,747,000	1,942,000	0	(1,942,000)
IN KIND	1,926,000	2,976,000	24,000	0	(24,000)
CAPITAL ADDITIONS	(548,000)	(441,000)	(181,000)	(2,732,000)	(2,551,000)
PRIOR PERIOD ADJUSTMENT				(333,000)	(333,000)
<b>TOTAL EXPENDITURES</b>	<b>34,235,000</b>	<b>47,759,000</b>	<b>51,164,000</b>	<b>51,528,000</b>	<b>364,000</b>
<b>CHANGE IN NET ASSETS</b>	<b>(42,000)</b>	<b>(162,000)</b>	<b>(670,000)</b>	<b>55,000</b>	<b>725,000</b>

**CASE STUDY CAP AGENCY**

**RATIOS**

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>
<b>CURRENT RATIO</b>	102.83%	102.18%	97.07%	72.65%
$\frac{\text{current assets}}{\text{current liabilities}}$ <i>current assets as a % of current liabilities</i>				
<b>PAY-OFF RATIO</b>	8.1	2.5	3.3	2.5
$\frac{(\text{cash} + \text{a/r})}{\text{accts payable}}$ <i>number of times cash + a/r can pay-off a/p</i>				
<b>AVERAGE DAYS CASH ON HAND</b>	3.7	(0.5)	(2.8)	(1.0)
$\frac{\text{cash \& equivalents}}{\text{avg exp's per day}}$				
<b>AVERAGE DAYS IN ACCOUNTS RECEIVABLE</b>	31.0	46.4	47.0	38.3
$\frac{\text{accounts receivable}}{\text{avg program revenue per day}}$ <i>avg number of days grant receivable in accts receivable</i>				
<b>AVERAGE DAYS IN ACCOUNTS PAYABLE</b>	4.3	18.2	14.0	15.5
$\frac{\text{accts payable}}{\text{avg exp's per day}}$ <i>avg number of days exp's in accts payable</i>				
<b>DEBT TO NET ASSETS RATIO</b>	90.11%	166.89%	211.29%	322.99%
$\frac{\text{total liabilities}}{\text{total net assets}}$ <i>liabilities as a % of net assets</i>				
<b>AVERAGE REVENUE PER DAY</b>	\$124,104	\$171,619	\$194,115	\$191,812
$\frac{\text{total revenue - in kind}}{260 \text{ working days}}$		38.29%	13.11%	-1.19%
<b>AVERAGE EXPENSES PER DAY</b>	\$124,265	\$172,242	\$196,692	\$191,600
$\frac{\text{total expenses - in kind}}{260 \text{ working days}}$		38.61%	14.20%	-2.59%
<b>ADMINISTRATIVE EXP'S TO TOTAL EXP'S</b>	4.31%	3.66%	3.80%	0.00%
$\frac{\text{administrative + general exp's}}{\text{total expenses}}$ <i>administrative + general exp's as a % of total expenses</i>				



## CASE STUDY CAP AGENCY YEAR 5

A summary of the audit reports as well as key information regarding the Agency are as follows:

### **Independent Auditors Report**

- An unmodified opinion was issued

### **Financial**

- Statement of financial position and Statement of Activities are summarized on the following worksheets
- Key Footnotes:
  - **Line of Credit** - \$3,400,000 (Operating)– outstanding balance \$1,746,000
  - **Grant Funds Received in Advance** – The advance received from the funding source has an outstanding balance of \$1,000,000
  - **Lease Commitments** - \$1,023,000 over next 5 years - \$553,000 within the next year
  - **Contingency** – There are several lawsuits still pending
  - **Continuity of Operations** – The Agency has incurred significant losses due to overspending of grant funds. The Agency has implemented a reorganization plan.
  - **Subsequent Event** – Funding sources consisting of 75% of the Agency’s grant funding have terminated their contracts for the next year. The Agency has begun to sell property in order to pay down debts.

### **Auditor’s Report on Financial Reporting**

- Material weakness internal control and compliance issues noted

### **Auditor’s Report on Major Programs**

- Material weakness internal control and compliance issue noted

### **Schedule of Findings and Questioned Costs**

- FINANCIAL STATEMENT AUDIT – Material weaknesses were identified in the following areas:
  - Source Documentation
  - Bank Reconciliation
  - Account Reconciliations
  - Failure to Promptly Request Reimbursement
  - Operations – Over Spent Programs
  - Timeliness of Reporting
- MAJOR FEDERAL AWARD PROGRAMS – Some or all of the material weaknesses listed above were identified in all major programs.

### **Key information regarding the Agency**

- Year-end audit was completed in December

**CASE STUDY CAP AGENCY**

<b>ASSETS</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>	<b>CHANGE</b>
CASH	458,000	0	0	0	485,000	485,000
INVESTMENTS	2,000	2,000	0	5,000	5,000	0
ACCOUNTS RECEIVABLE-GRANTS	3,182,000	7,166,000	8,320,000	6,920,000	4,522,000	(2,398,000)
ACCOUNTS RECEIVABLE-OTHER	665,000	800,000	812,000	427,000	452,000	25,000
OTHER ASSETS	341,000	797,000	199,000	172,000	184,000	12,000
<b>TOTAL CURRENT ASSETS</b>	<b>4,648,000</b>	<b>8,765,000</b>	<b>9,331,000</b>	<b>7,524,000</b>	<b>5,648,000</b>	<b>(1,876,000)</b>
<b>PROPERTY &amp; EQUIPMENT</b>	<b>5,764,000</b>	<b>5,686,000</b>	<b>5,514,000</b>	<b>12,881,000</b>	<b>11,614,000</b>	<b>(1,267,000)</b>
<b>LONG-TERM ASSETS</b>						
OTHER INVESTMENTS	236,000	65,000				0
<b>TOTAL LONG-TERM ASSETS</b>	<b>236,000</b>	<b>65,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>TOTAL ASSETS</b>	<b>10,648,000</b>	<b>14,516,000</b>	<b>14,845,000</b>	<b>20,405,000</b>	<b>17,262,000</b>	<b>(3,143,000)</b>
<b>CURRENT LIABILITIES</b>						
LINE OF CREDIT	0	241,000	62,000	3,352,000	1,746,000	(1,606,000)
CURRENT PORTION OF L/T DEBT	27,000	30,000	32,000	81,000	65,000	(16,000)
CASH OVERDRAFT	0	88,000	546,000	192,000		(192,000)
ACCOUNTS PAYABLE	529,000	3,040,000	2,207,000	2,772,000	3,548,000	776,000
ACCRUED PERSONNEL EXPENSE	570,000	867,000	653,000	462,000	653,000	191,000
ACCRUED VACATION	332,000	385,000	412,000	479,000	438,000	(41,000)
GRANT FUNDS RECEIVED IN ADVANCE	3,062,000	3,927,000	5,700,549	3,019,000	1,233,000	(1,786,000)
<b>TOTAL CURRENT LIABILITIES</b>	<b>4,520,000</b>	<b>8,578,000</b>	<b>9,612,549</b>	<b>10,357,000</b>	<b>7,683,000</b>	<b>(2,674,000)</b>
LONG-TERM DEBT	527,000	499,000	464,000	5,224,000	5,399,000	175,000
<b>TOTAL LONG-TERM LIABILITIES</b>	<b>527,000</b>	<b>499,000</b>	<b>464,000</b>	<b>5,224,000</b>	<b>5,399,000</b>	<b>175,000</b>
<b>TOTAL LIABILITIES</b>	<b>5,047,000</b>	<b>9,077,000</b>	<b>10,076,549</b>	<b>15,581,000</b>	<b>13,082,000</b>	<b>(2,499,000)</b>
<b>NET ASSETS</b>						
UNRESTRICTED	1,192,000	1,026,000	583,000	4,824,000	4,180,000	(644,000)
TEMPORARILY RESTRICTED	2,676,000	2,570,000	2,508,000			0
PERMANENTLY RESTRICTED	1,733,000	1,843,000	1,678,000			0
<b>TOTAL NET ASSETS</b>	<b>5,601,000</b>	<b>5,439,000</b>	<b>4,769,000</b>	<b>4,824,000</b>	<b>4,180,000</b>	<b>(644,000)</b>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<b>10,648,000</b>	<b>14,516,000</b>	<b>14,845,549</b>	<b>20,405,000</b>	<b>17,262,000</b>	<b>(3,143,000)</b>

**CASE STUDY CAP AGENCY**

<b>REVENUE</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>	<b>CHANGE</b>
GRANT REVENUE	27,930,000	39,971,000	44,797,000	42,762,000	36,434,000	(6,328,000)
PROGRAM INCOME	3,203,000	3,786,000	4,603,000	3,446,000	3,805,000	359,000
CONTRIBUTIONS	670,000	487,000	715,000	3,348,000	3,389,000	41,000
RENTAL INCOME	370,000	377,000	355,000	315,000	338,000	23,000
GAIN ON DISPOSAL OF ASSETS IN KIND	94,000 1,926,000	0 2,976,000	0 24,000	0 1,712,000	0 3,679,000	0 1,967,000
<b>TOTAL REVENUE</b>	<b>34,193,000</b>	<b>47,597,000</b>	<b>50,494,000</b>	<b>51,583,000</b>	<b>47,645,000</b>	<b>(3,938,000)</b>
<b>EXPENDITURES</b>						
WAGES & SALARIES	10,835,000	12,283,000	13,220,000		16,289,000	16,289,000
FRINGE BENEFITS	2,371,000	2,866,000	3,209,000		4,458,000	4,458,000
TRAVEL / TRANSPORTATION	436,000	386,000	485,000		460,000	460,000
BUILDING COSTS	1,514,000	1,694,000	2,140,000		3,050,000	3,050,000
SUPPLIES	1,187,000	1,372,000	1,533,000		793,000	793,000
OPERATING COSTS	943,000	1,070,000	1,312,000		2,249,000	2,249,000
OTHER COSTS	244,000	448,000	206,000		318,000	318,000
PROFESSIONAL SERVICES	366,000	361,000	867,000		1,229,000	1,229,000
CLIENT ASSISTANCE	12,206,000	21,624,000	23,242,000	54,593,000	12,767,000	(41,826,000)
SPECIAL EVENTS	299,000	195,000	149,000		39,000	39,000
EQUIP./CONSTR./RENOVATION	519,000	671,000	2,570,000		76,000	76,000
DEPRECIATION	461,000	507,000	446,000		762,000	762,000
INDIRECT COSTS	1,476,000	1,747,000	1,942,000		2,120,000	2,120,000
IN KIND	1,926,000	2,976,000	24,000		3,679,000	3,679,000
CAPITAL ADDITIONS	(548,000)	(441,000)	(181,000)	(2,732,000)		2,732,000
PRIOR PERIOD ADJUSTMENT				(333,000)		333,000
<b>TOTAL EXPENDITURES</b>	<b>34,235,000</b>	<b>47,759,000</b>	<b>51,164,000</b>	<b>51,528,000</b>	<b>48,289,000</b>	<b>(3,239,000)</b>
<b>CHANGE IN NET ASSETS</b>	<b>(42,000)</b>	<b>(162,000)</b>	<b>(670,000)</b>	<b>55,000</b>	<b>(644,000)</b>	<b>(699,000)</b>

**CASE STUDY CAP AGENCY**

**RATIOS**

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
<b>CURRENT RATIO</b>	102.83%	102.18%	97.07%	72.65%	73.51%
$\frac{\text{current assets}}{\text{current liabilities}}$ <i>current assets as a % of current liabilities</i>					
<b>PAY-OFF RATIO</b>	8.1	2.5	3.3	2.5	1.5
$\frac{(\text{cash} + \text{a/r})}{\text{accts payable}}$ <i>number of times cash + a/r can pay-off a/p</i>					
<b>AVERAGE DAYS CASH ON HAND</b>	3.7	(0.5)	(2.8)	(1.0)	2.8
$\frac{\text{cash \& equivalents}}{\text{avg exp's per day}}$					
<b>AVERAGE DAYS IN ACCOUNTS RECEIVABLE</b>	31.0	46.4	47.0	38.3	29.4
$\frac{\text{accounts receivable}}{\text{avg program revenue per day}}$ <i>avg number of days grant receivable in accts receivable</i>					
<b>AVERAGE DAYS IN ACCOUNTS PAYABLE</b>	4.3	18.2	14.0	15.5	20.7
$\frac{\text{accts payable}}{\text{avg exp's per day}}$ <i>avg number of days exp's in accts payable</i>					
<b>DEBT TO NET ASSETS RATIO</b>	90.11%	166.89%	211.29%	322.99%	312.97%
$\frac{\text{total liabilities}}{\text{total net assets}}$ <i>liabilities as a % of net assets</i>					
<b>AVERAGE REVENUE PER DAY</b>	\$124,104	\$171,619	\$194,115	\$191,812	\$169,100
$\frac{\text{total revenue - in kind}}{260 \text{ working days}}$					
		38.29%	13.11%	-1.19%	-11.84%
<b>AVERAGE EXPENSES PER DAY</b>	\$124,265	\$172,242	\$196,692	\$191,600	\$171,577
$\frac{\text{total expenses - in kind}}{260 \text{ working days}}$					
		38.61%	14.20%	-2.59%	-10.45%
<b>ADMINISTRATIVE EXP'S TO TOTAL EXP'S</b>	4.31%	3.66%	3.80%	0.00%	4.39%
$\frac{\text{administrative + general exp's}}{\text{total expenses}}$ <i>administrative + general exp's as a % of total expenses</i>					