

REICHERT HOUSE, INC

**Corporate Issues**

Articles of

Incorporation: The Reichert House was founded in 1987 as a collaborative effort between the Gainesville Police Department, Black on Black Crime Task Force, Corner Drug Store and Gainesville Housing Authority. On February 9, 2006, The Reichert House incorporated and submitted Articles of Incorporation as a non-profit organization with the Florida Secretary of State, Division of Corporations effective February 20, 2006.

By-Laws: The Reichert House, Inc developed a set of by-laws specifying the Board's various rules of internal operation. The by-laws adequately set forth the purpose and mission, powers of the directors and officers.

Mission &

Purpose The Reichert House was created to assist the youth of Alachua County in living a life free from violence and incarceration through the use of educational, social and vocational experiences. The primary purpose of the organization is to "serve needy and at-risk youth in Alachua County and North Central Florida".

Corporate

Annual Reports: Annual reports have been filed with the Florida Secretary of State for 2007, 2008 and 2009. The 2010 report is due by May 1, 2010.

Division of

Consumer Services: The Reichert House, Inc is currently registered with the Florida Division of Consumer Services. The Florida Solicitation of Contributions Act requires charitable organizations, professional solicitors and fund raising consultants to register annually and provide documentation about their finances before soliciting contributions in the state.

Board of

Directors: The Reichert House, Inc. has seven (7) Directors serving 2-year terms. Board members shall always include one (1) voting member from The BOBCTF. The City of Gainesville will have one (1) position allocated as an ex-officio member. Board Members for FY 2009 are:

1. Tommie Howard, President
2. Gwendolyn Love, Vice President (CDS employee)
3. James Albright, Treasurer (GPD employee)
4. Tina Banis, Secretary (SBAC employee)
5. Tony R. Jones, Director (ex officio City member)
6. Rosa B. Williams, Director (BOBCTF representative)
7. Kevin Camps, Director (GHA employee)

Board

Meetings: The Board meets on a monthly basis and regularly has a quorum. The Board actively reviews and monitors program progress on students served. However, because of significant dependency of financial funding from program sponsors and partners it appears that the Board has a non-traditional approach to overseeing financial information such as annual budgets, financial statements and tax returns (see later discussions on these topics).

## **Conclusion**

The general corporate and organizational structure of the RH appears adequate except for the absence of the regular monitoring of financial data such as budgets, financial statements and tax returns by the Board. The Board relies on the financial soundness of its partners and sponsors which have historically cooperated advantageously for the common goals and objectives of the program. However for continued success and future growth, we believe the Board needs to implement a more traditional approach to monitoring revenues and expenses, better understand the overall financial condition of the organization and increase their decision-making authority.

## **Organizational Issues**

Property Ownership: The land and buildings used by the Reichert House, Inc. are currently owned by the City of Gainesville. However, it was a combination of donations from private donors and public agencies to the Black on Black Crime Task Force, Inc. that helped construct the existing main facility. Funding sources included the City of Gainesville, United Way, Phil Emmer Development, Corner Drug Store, Florida Department of Corrections, Gainesville Housing Authority and the Builders Association of North Central Florida. In 2006, The Black on Black Crime Task Force deeded the land and building to the City of Gainesville (see Note 1). Several years later, a second building was added on the property. The Alachua County Property Appraiser Office lists the combined assessed value of land and buildings at \$471,400.

Note 1: We noted that although the BOBCTF deeded the assets to the City, the transaction was not completely adjusted from its financial records and tax returns and therefore remains capitalized at \$745,000. The BOBCTF is working with a CPA to remedy this situation.

Partners and Sponsors: The major supporters of The Reichert House, Inc. include:

Black on Black Crime Task Force of Gainesville, Inc  
Gainesville Police Department  
Alachua County Sheriffs Office  
Alachua County  
Gainesville Housing Authority  
Corner Drug Store (CDS) Family & Behavioral Health Services, Inc  
School Board of Alachua County

Staffing: The Reichert House, Inc. does not directly pay the salary and benefits of the 17 staff members currently assigned. The major partners and sponsors provide the financial and program support by either assigning various employees to operate the facility or obtaining grants to provide temporary employees such as tutors or youth leaders. This combined effort provides staffing to serve the needs of the approximately 120 students enrolled in the after school program.

The Gainesville Police Department is a major supporter of The Reichert House, Inc. and assigns staff within the Community Resources Division. Under the guidance of a Police Captain (Ed Book), the Community Resources Division is administered by a Community Program Coordinator (James Albright) and a Staff Assistant (Pat Schubert). FY 09 Funding sources for direct staffing of Reichert House programs are as follows:

GPD (General Fund = \$240,100-Local Match for 21<sup>st</sup> Century Grant via SBAC)

Executive Director (Byers Hickmon)  
Administrative Director (Police Officer Doug Williams)  
Operations Director (Police Officer -position vacant)  
Facilities Manager (Police Service Technician Julian McCoy)  
High School Youth Director (Caleb Young)  
Intervention Specialist (Byron Lewis)

GPD (\$120,969=21<sup>st</sup> Century Community Learning Center Grant via SBAC)

Assistant Director (John Alexander)  
Middle School Youth Director (part-time) (Antravious Bedford)  
Family Liaison Specialist (vacant)

Black on Black Crime Task Force (\$101,112 =Byrne Grants via subcontracts with GPD)

Five (5) Intervention Specialists (Kevin Mattair, George Smith, Ulysesse Moore, Corey Gordon and William Hickmon)

Gainesville Housing Authority (unknown amount)

Administrative Assistant (Kevin Camps)

CDS Family & Behavioral Health Services, Inc. (unknown amount)

Intervention Specialist (Michael Johnson)

Alachua County CAPP (\$30,000)

Intervention Specialist (Taurus Williams)

**Conclusion**

There is no doubt that a synergetic relationship between the various partners and sponsors contributes to the success of RH. Through the years, these joint efforts and combined focus have created positive program results producing an effect that is more than likely greater than the sum of the parts acting alone. However, the RH, BOBCTF and GPD are inexplicably intertwined, which make it difficult to follow transactions and monitor financial effects. An excessive intertwining of organizations is having counteractive effects in that conditions can go undetected. For example, the missed adjustment and continued carrying and depreciating of \$745,000 of capitalized assets is a signal to the risk that each of the partners take if financial transactions are not properly separated and monitored.

The Board needs to take a more determined stance for corporate independence, diversify its partner base and develop an internal financial structure (also see Financial section).

**Financial and Operational Issues**

The Reichert House, Inc. receives financial support through its partners and sponsors. The individual partners and sponsors are responsible to account for their share of resources and do so through their respective agencies. For example, FY 2010 grants generated through the GPD for Reichert House programs are \$180,969. Grant transactions supporting the RH are processed through the City's financial system and GPD staff provides the required monthly reports to the sponsoring federal and state grant agencies.

Although each sponsoring or partnering organization individually handles its share of grants and awards, the RH is not structurally set up to make a full accounting of resources used in the operation of the program. The Reichert House, Inc. does not produce budgets, financial statements or tax returns (see IRS section). Although the Board regularly monitors program issues, we were unable to singularly determine the financial condition of the Reichert House, Inc.

We also found that the RH does not have its own bank account. The RH relies on the BOBCTF and the City to process revenue and expenses. Contributions and other funds received are turned over to the BOBCTF and deposited in its bank. For example, a \$25,000 donation made to the RH in 2006 is being held "in trust" in a BOBCTF bank account. As discussed above, the excessive intertwining of organizations can provide negative effects and make it difficult to follow transactions and monitor overall financial results. Several grants are routed through the BOBCTF which then directly spends the funds on the RH.

We believe the RH needs to strengthen its financial accountability as a stand alone entity to ensure the Board can monitor current financial conditions and enhance its strategic planning process. The financial dependency and cooperation with its partners and sponsors will continue, however the Board should firmly understand the financial resources required for current program operations, future programs and potential expansions needed. The potential for growth exists and the Board must be ready to accept the responsibility. For example, during the FY 2011 Federal Agenda, the City of Gainesville is requesting \$1 million to support initiatives for at-risk youth and the Reichert House, Inc. through the US Department of Justice Byrne Grants Program. The Board should have strategic plans, goals and objectives should these funds be awarded.

The new entrepreneurial programs recently implemented (landscaping contract and café services) will generate new sources of funds that will need to be accounted. The G-Tech grounds maintenance contract is a \$10,800 contract and the new café is expected to generate \$2,500 per month. The RH currently has no bank account in its corporate name to place these funds.

Note 2: The RH significantly depends on the financial health of its partners and sponsors which are all governmental units or non-profits dependent on governmental units. Currently, local, state and national economies are weak and future funding from all agencies are at risk. The Board needs to assess its long term corporate dependence on governmental units and take steps to diversify its partner base and develop long range goals.

## **Conclusion**

The intertwining of transactions between the RH, BOBCTF and GPD make it difficult to separate and account for the revenues and expenses of running the whole program. The Board should take a more independent approach to monitoring the Reichert House, Inc. and initiate plans to strengthen its financial accountability and measuring performance.

Currently, several federal and state grants used for the RH are channeled through the BOBCTF. The Board should have long terms goals and plans for the RH to directly receive these resources rather than using the BOBCTF as a conduit. We believe the Board should strategically delineate the distinction between the partnering organizations.

The Board needs to develop an action plan that includes establishing a recordkeeping system for determine the organization's income and expenses and allow for proper monitoring and reporting of its financial activities. Actions should include:

1. Selecting a banking facility
2. Developing and implementing policies and procedures to provide for:
  - Approvals, Authorizations and Verifications
  - Reconciliations
  - Asset Security
  - Annual budget reports
  - Periodic monitoring of treasurer reports to budget
  - Annual financial statements
3. Assessing insurance requirements to protect assets, officers and personnel

### Internal Revenue Service

Although The Reichert House incorporated in 2006, the organization has failed to file Form 990, Return of Organization Exempt From Income Tax. The failure to file puts the agency at risk in several ways including:

1. Late penalties imposed. The IRS can impose penalties of \$20 per day for each day the return is late up to a maximum of \$10,000, or 5 percent of the organization's gross receipts, whichever is less.
2. Tax-exempt status could be revoked. Effective for years after 12/31/07, failure to file Form 990-N, FORM 990 or Form 990 EZ for three consecutive years results in a revocation of tax-exempt status. Automatic revocations will start for organizations not filing for the third consecutive year in 2010. Loss of exempt status means an organization must file income tax returns and pay income tax, and its contributors will not be able to deduct their donations.

The RH will first have to determine its gross receipts and file the correct form. The table below indicates which form will be required:

<i>Financial Activity</i>	<i>Form to File</i>
Gross receipts normally $\leq$ \$25,000	990-N
Gross receipts $>$ \$25,000 and $<$ \$500,000, and Total assets $<$ \$1.25 million	990-EZ or 990
Gross receipts $\geq$ \$500,000, or Total assets $\geq$ \$1.25 million	990

3. Lose Public Charity Status from the IRS Advance Ruling. Effective February 20, 2006, the RH obtained an advance ruling to be treated as a public charity during their first five tax years. The RH has a 5 year "advance ruling" of qualifying as a "public charity" until 9/30/10. When the advance ruling period ends, the organization will have to file **Form 8734** to obtain a final ruling or otherwise default to a private foundation. The form requires an accounting of revenues and expenses for five years.

If the form is not filed, the RH will remain a charitable organization as a 501 (c) (3) (unless it has been revoked by failing to file) but will be classified as a private foundation and not public.

Within 90 days after the end of the corporation's fifth tax year, it must submit information on IRS Form 8734 which the IRS uses to make its final ruling. Failure to file or not satisfying the public charity rules, results in retroactively reverting to a private foundation status.

Note 3: On 2/18/10, EM found conflicting info on whether or not changes in the IRS regulations eliminated the need for RH to file this form.

### **Conclusion**

The RH should immediately consult with a CPA to determine the best course of action to retain the organizations tax-exempt status as a 501(c)(3) organization as a public charity and prepare the needed forms.

### **Expanded Programs and Liability Insurance Issues**

Reichert House, Inc. does not carry insurance to protect it from the risks of liabilities imposed by lawsuits and similar claims.

Since the property and vehicles used by the Reichert House are owned by the City, the City is self-funded for property damage losses. The City has a sovereign immunity cap set by Florida Statute of \$100,000 per individual and \$200,000 in total, any award greater than that needs a claims bill by Florida legislature. In addition, GPD staff are covered under the City's umbrella liability coverage. However, some questions remain about insurance coverage for the students engaging in "off-campus" activities.

The Reichert House is currently expanding programs to provide hands-on career skills landscaping services and operating a restaurant. For example, the landscaping services will require students to operate machinery such as lawn mower, shears and bush hogs. Both of these businesses are activities that will entail some level of risk for injury or loss. We are unsure of the coverage available if one of the students is injured.

The Board should consider the need to carry insurance so that if these activities cause loss or damage to another, funds will be available to pay compensation. The City usually requires liability insurance of other not for profits to insure against the risk of being sued by third parties for negligence. The most usual classes of mandatory policies are drivers of vehicles, professional services, workers compensation and officer coverage. We are not aware of any insurance coverage in these areas.

### **Conclusion**

The Board should consult with an insurance professional to determine its liability coverage needs, including director and officer coverage.

### **Summary and Recommendations**

Reichert House has placed significant emphasis on program development and emerged as an award winning program. As RH evolved, it developed more complex organizational processes and demonstrated maturity by incorporating and seeking federal tax exemption. The board was successful in securing space from the City of Gainesville, undertook fundraising efforts and entered into collaborative relationships with local governments and other nonprofits.

Reichert House has achieved many milestones but retains a mission to do more. The organization will face new challenges to overcome to continue successful growth patterns. To meet these challenges, the Board will need to commit to strengthen its financial accountability and emerge more as an independent decision making body. Current economic conditions are significantly impacting the resources of the RH governmental partners, placing the future of the RH at risk. The Board should be actively involved in monitoring financial resources and planning for potential negative impacts.

RH has failed to file the necessary IRS tax forms during the last four years and soon approaching the end of its "advanced ruling period," with the IRS. If RH fails to complete the proper forms or satisfy IRS public charity requirements, it will be reclassified as a private foundation retroactive to its date of incorporation. Public charity status is important because it typically enhances fundraising from individual, private foundations and corporate and government sources.

Recent enhanced entrepreneurial programs have increased the need to account for revenues and expenses and also created a need for the Board to address liability issues. The landscaping maintenance contract will generate revenues of \$10,800 and the grand opening of the new café on Valentines Day generated \$1,300 in a day. The Board needs to address making provisions for handling these revenues and assessing the new level of risk of injury and liability from these enterprises.

We recommend that the Reichert House Board:

1. Initiate a transition phase to reduce the intertwining of financial resources, become a stand alone organization and reduce the dependency on other organizations handling its financial resources.
2. Implement a more traditional approach to monitoring revenues and expenses, better understand the overall financial condition of the organization and increase their decision-making authority.  
Actions should include:
  - Selecting a banking facility
  - Developing and implementing policies and procedures to provide for:
    - ✓ Approvals, Authorizations and Verifications
    - ✓ Reconciliations
    - ✓ Asset Security
    - ✓ Annual budget reports
    - ✓ Periodic monitoring of treasurer reports to budget
    - ✓ Annual financial statements
3. Consult with a professional to resolve IRS Form 990 issues and ensure compliance with other IRS regulations related to ensure public charity status (filing Form 8437 by 12/31/10 if needed)
4. Consulting with an insurance professional to assess insurance requirements for protecting assets and covering directors and officers