

Health Related Not-For-Profit Organizations: Time to Rewrite

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Abstract

This paper examines Not-for-Profit organizations, specifically those representing diseases.

An organization that is formed for profit conducts its affairs solely for the purpose of earning profits to benefit its stakeholders. In contrast, the organization that is formed as not-for-profit, does not earn profits for its stakeholders, but use the earnings or donated funds to pursue the organization's objectives and to continue operation. Given this definition, one must not be confused about the profit-making motives of not-for-profit organizations. These businesses generate substantial earnings from their charitable causes, yet they do not pay income taxes. Are these not-for-profit organizations adequately using the contributed funds for the purpose and mission of the not-for-profit organizations? This paper attempts to answer the question by examining the use of funds by four health related not-for-profit organizations through analysis of their financial statements. The paper will assess their operating philosophy and will look at their relationship with the medical and pharmaceutical industries. This paper will identify if there is a need for changes to the not-for-profit laws. The monetary connection between these four not-for-profit organizations and the medical and pharmaceutical industries are problematic. Performance of the analyses highlights that salaries and benefits account for the largest expenditure within the not-for-profit organizations. Research is a significant expense for these four not-for-profit organizations, and it is imperative for it to be clearly shown or reflected on their financial statements and not be included or embedded in other expenses. Further investigations on the management and compensation levels of these organizations must be undertaken.

Introduction

Organizations are chartered primarily for profit or, in some cases, not-for-profit. In looking at the organizations within these two categories, it is important to understand that they are formed for specific purposes. An organization that is formed for profit conducts its affairs solely for the purpose of earning profits to benefit its stakeholders. In contrast, the organization that is formed as not-for-profit, does not earn profits for its stakeholders, but use the earnings or donated funds to pursue the organization's objectives and to continue operation. However, given this definition, one must not be confused about the profit-making motives of not-for-profit organizations. Some not-for-profit organizations generate substantial earnings from their charitable causes, yet they do not pay income taxes. Are these not-for-profit organizations adequately using the contributed funds for their purposes and missions? This paper attempts to answer the question by examining the use of funds by four health related not-for-profit organizations through analysis of their financial statements. The paper will assess their operating philosophy and will look at their relationship with the medical and pharmaceutical industries. This paper will identify if there is a need for changes to the not-for-profit laws.

Not-For-Profit Organizations Tax Status

In order to avoid paying income tax and receiving a 501(c)(3) tax exempt status, many not-for-profit organizations file an application with the Internal Revenue Service establishing the purpose of the not-for-profit. The benefits of 501(c)(3) status are the exemption from paying federal income tax and the eligibility to receive tax-deductible charitable contributions. If approved the not-for-profit organizations do not pay income taxes, sales taxes, or property taxes; but payroll taxes are paid. Another aspect of not-for-profit

organizations is that they are public charities designated to serve a public purpose and they receive most of their support from the public.

Four Major Health Related Not-for-Profit Organizations

The purpose of the four not-for-profit organizations is healthcare related. They operate with the intent to bring awareness to, cure, and eliminate certain health related diseases. Cancer is one of the diseases that has greatly impacted the American society both directly and indirectly. In the year 2016, it was estimated that there were 15.5 million cancer cases. In the year 2018, there was a total of 1.7 million new cancer cases, a rate of 439.2 new cases in every 100,000 of the population. The cancer death rate is 163.5 deaths out of every 100,000 of the population. It is also estimated that by the year 2026, there will be 20.3 million cancer cases. Approximately 38.4% of men and women would be diagnosed with cancer at some time in their lives. In addition, the national expenditure for the year 2017 was \$147.3 billion.

Use of Funds and Operating Philosophy American Cancer Society, Inc.

The American Cancer Society is an organization at the forefront of the fight against cancer. This 106-year old organization is on the quest to free the world of cancer. Its mission is to eliminate cancer and until it happens, the organization pledges to fund and conduct research, share expert information, support patients, and spread the word about prevention. An analysis of this non-for-profit organization's financial statements was performed, and the financial information contained in the statement of activities was examined. The American Cancer Society's Statement of Income and Expenses for the years 2015 through 2017 illustrates that salaries and payroll accounted for over 50% of total revenues, while research accounted for 13%. See table below.

American Cancer Society, Inc.

Statement of Income and Expenses (dollar amounts in thousands)

	2017	2016	2015	Total	% of Rev
Income	\$ 860,691	\$ 841,418	\$ 815,827	\$ 2,517,936	100%
Salaries	\$ 328,857	\$ 353,447	\$ 362,216	\$ 1,044,520	41%
Employee Benefits	70,084	105,592	109,361	285,037	11%
Payroll Taxes	24,483	25,153	25,999	75,635	3%
Professional Fees	58,808	47,973	54,650	161,431	6%
Grants for mission program services	103,339	109,154	110,339	322,832	13%
All Other expenses	252,850	245,643	277,978	776,471	31%
Total Expenses	\$ 838,421	\$ 886,962	\$ 940,543	\$ 2,665,926	

(Adopted from the American Cancer Society Financial Statements for 2015, 2016, 2017)

American Diabetes Association

Diabetes is a very common disease in the American society. Data shows that 10% of the American population has the disease. In the year 2015 about 84.1 million Americans had prediabetes. This is a major illness and the seventh leading cause of death in America. In the year 2017, total cost associated with diabetes was over \$327 billion. A major organization in the fight against diabetes is the American Diabetes Association. This organization is over 80 years old and its mission is to prevent and cure diabetes. An analysis of the financial statements of this organization indicates that salaries and benefits represent 39% of revenues, and professional fees, which are sometimes salaries, represent another 11% of revenues. Together they represent 50% of revenues. Research cost, under grants, represent 20%. See table below.

American Diabetes Association

Statement of Income and Expenses (dollar amounts in thousands)

	2017	2016	2015	Total	% of Rev
Income	\$ 150,240	\$ 171,062	\$182,286	\$ 503,588	100%
Employee Cost	\$ 60,276	\$ 69,064	\$ 66,042	\$ 195,382	39%
Professional Fees	17,838	20,600	17,842	56,280	11%
Grants	36,656	32,426	31,281	100,363	20%
All other Expenses	60,845	68,560	68,159	197,564	39%
Total Expenses	\$ 175,615	\$ 190,650	\$ 183,324	\$ 549,589	

(Adopted from the American Diabetes Association Financial Statements for 2015, 2016, 2017)

American Heart Association, Inc.

Heart disease is the leading cause of death in the United States. It is estimated that one of every four individual die from heart disease. Nearly 800 thousand Americans die each year from this disease. It is also estimated that 86 million Americans have some type of cardiac disease. The cost of this disease to society is over \$300 billion and it is estimated to increase to over \$800 billion by the year 2030. The lost productivity from this disease is over \$275 billion. The American Heart Association is the organization in the fight to eradicate this disease. This 95-year old organization's mission is to be a force for a world of longer, healthier lives. This organization comprises of thirty-three million volunteers and thirty-four hundred employees. An analysis of the financial statements of this organization reveals that 41% of revenues is attributed to salaries. Salaries for this organization is the largest expenditure. Professional fees are 10%, while research, embedded in grants and awards, represents 20%. See table below.

American Heart Association Inc

Statement of Income and Expenditure (dollar amounts in thousands)

	2018	2017	2016	Total	% of Rev
Income	\$ 911,987	\$ 863,354	\$ 808,085	\$ 2,583,426	100%
Salaries, taxes, and benefits	\$ 372,069	\$ 358,944	\$ 337,726	\$ 1,068,739	41%
Professional Fees	89,975	90,744	88,585	269,304	10%
Awards and Grants	171,947	172,883	170,177	515,007	20%
Printing and Publications	113,297	125,925	134,324	373,546	14%
All Other Expenses	143,233	144,609	131,091	418,933	16%
Total Expenses	\$ 890,521	\$ 893,105	\$ 861,903	\$ 2,645,529	

(Adopted from the American Heart Association Inc. Financial Statements for 2016, 2017, 2018)

Leukemia & Lymphoma Society

Blood cancers are horrible diagnosis. In the United States one person is diagnosed with this ailment every four minutes. Two common types of blood cancers are leukemia and lymphoma. These cancers are commonly referred to as liquid cancers. Over one million people in the United States are living with these diseases. Every day one hundred and seventy individuals are diagnosed with leukemia and two hundred and twenty-three individuals are diagnosed with lymphoma. The daily death toll is sixty-seven from leukemia and fifty-eight from lymphoma.

The Leukemia and Lymphoma Society is the organization fighting these diseases. This 60-year old organization is dedicated to curing leukemia and lymphoma and hopes to rid the world of these deadly blood cancers. The financial statements of this organization for the years 2016 to 2018 show that salaries and related expenses represent the largest expenditure. Salaries and employee benefits represent 27% of

revenues, and professional fees accounts for 6%. Research spending, embedded in Awards and Grants, represents 12% of revenues. See table below.

The LEUKEMIA & LYMPHOMA SOCIETY					
Statement of Revenue and Expenditures (dollar amounts in thousands)					
	2018	2017	2016	Total	% of Rev
Operating Revenue	\$ 289,044	\$ 288,766	\$ 254,670	\$ 832,480	
Co pay Assistance	159,851	77,729	44,673	282,253	
Total income	\$ 448,895	\$ 366,495	\$ 299,343	\$ 1,060,019	100%
Salaries, employee benefits and taxes	\$ 108,350	\$ 101,702	\$ 90,623	\$ 300,675	27%
Co Pay Assistance	108,442	72,969	40,030	221,441	21%
Professional Fees	23,558	22,707	18,638	64,903	6%
Awards and Grants	44,517	42,219	40,011	126,747	12%
All Other expenses	88,008	97,688	85,154	270,850	26%
Total Expenses	\$ 372,875	\$ 337,285	\$ 274,456	\$ 984,616	

(Adopted from the Leukemia & Lymphoma Society Financial Statements for 2016, 2017, 2018)

Analysis

It is important to remember that the not-for-profit criteria is that excess income of the organization cannot be distributed to any particular individual or individuals. Performance of these analyses highlights that salaries and benefits account for the largest expenditure within these organizations, and this leads to two significant questions. Who are the real beneficiaries of these structures and are they circumventing the regulations for not-for-profit organizations? The missions of all of these four major health related not-for-profit organizations are to find a cure for or rid the country of these diseases and promote a healthier America. Will the missions be accomplished if the organizations invest an average of 15% of their revenue in research, whereas an average of 46% is invested in salaries and benefits?

After examination of the financial statements of these four major health related not-for-profit organizations, it was noted that their operations are similar to that of trade associations – organizations that organize around particular industries. These four organizations, the American Diabetes Association, the American Cancer Society, the American Heart Association and the Leukemia and Lymphoma Society, operate to benefit and promote the industries they represent, and make the public aware of their existence.

The connections between these four health related organizations and the healthcare and pharmaceutical industries can be seen by examining the donor list of the four not-for-profit organizations' annual reports. The pharmaceutical and healthcare industries are the largest donors to these four organizations. The American Heart Association received millions of dollars from organization such as Amthelm Inc., Bayer Inc., Medtronic, and Novartis. The American Cancer Association received millions from CVS Caremark, Walmart, Procter and Gamble and Kroger. The American Diabetes Association largest donors are Jansen Pharmaceutical, Merck, Novo Nordisk, and Sanofi. The Leukemia and Lymphoma Society largest donors are Abbvie, Bristol Myers and Pfizer.

The monetary connection between these organizations are problematic because a cure for these diseases would have a severe financial impact and would be detrimental to both the four not-for-profit health organizations and the healthcare and pharmaceutical industries. The assets of these four health related organizations total over \$800 billion and this financial position can be a hinderance to the organizations' need to deliver a cure for these diseases. These organizations should be working in the interest of the public. The billion-dollar financial position among these four Not-for-Profit Health Organizations and the Pharmaceutical Industry appears to be a hindrance in finding a cure to these chronic diseases.

Conclusion

These four not-for-profit organizations indicate missions to conduct research to eliminate the above-mentioned diseases. However, research expenses are not specifically identified and pointed out within the financial statements. Research is a significant expense for these four organizations, and it is imperative for it to be clearly shown or reflected on their financial statements and not be included or embedded in other expenses. Further investigations on the management and compensation levels of these organizations must be undertaken.

Society must look for solutions. There should be extensive reviews of the not-for-profit laws and a limited life should be assigned to these not-for-profit organizations. These organizations have been in existence for over 60 years and there still is no cure for any of the diseases they purport to conduct research for. These not-for-profit organizations should not be allowed to have an indefinite life. The Internal Revenue Service and Congress must review and rewrite the not-for-profit laws of the United States. The law should be written that after 50 years the Internal Revenue Service should take 5% tax of gross revenue, and after 60 years 10% tax of gross revenue. After seventy years these organizations should be phased out over a period of five years. The Internal Revenue Service and Congress must reexamine and rewrite the not-for-profit laws.

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