

Leadership Camp for Directors and Emerging Leaders of Family and Youth-Run Organizations

Financial Oversight Board Expectations of Staff

The Board of Directors has legal responsibility for the organization's work, for short and long term planning and must ensure that systems are in place for effective use of resources and guarding against misuse. To this end, information provided by staff should be:

- **Accurate:** Information must be reliable and accurate. Resolving questions about the quality of recordkeeping or accounting is a top priority of the Board,
- **Timely:** Information should be available to the board within two months at the latest. When meeting to discuss interim financial statements, the statements reviewed should be for the previous month. Try to schedule board meetings during the 3rd week of the month.
- **In Context:** Information should be presented in relationship to the history, goals and programs of the organization,
- **Appropriate:** The reporting format needs to match the knowledge level of the board members.

Staff Expectations of the Board

- **Resources:** That the Board has provided resources for an adequate accounting and bookkeeping system,
- **Treasurer:** That the Board treasurer is knowledgeable about the organization's financial affairs and understands his/her role as defined by the bylaws,
- **Board Chair:** That the chair has provided for sufficient training of board members to ensure that members understand their proper role as a board.
- **Committees:** That the board has established the required and proper committees needed to manage the organization's financial affairs.

What Every Board Needs to Review

Financial reports should be on the agenda at every board meeting. The board should regularly review:

- Income/Operating Statement – showing income and expense for the period compared to budget,
- Balance Sheet – showing the assets, liabilities and net assets
- Cash Flow Projection – future impact of operations upon cash balances

In addition, once a year the board should:

- Review and approve the annual budget
- Review the Annual Financial Report and Audit (if required)
- Ensure that the IRS 990 information return has been filed

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Review of Financial Terms – Balance Sheet

- Assets: What is owned by the organization
 - ✚ Current Assets - assets that could be expected to be available as cash within 12 months. Examples: cash equivalents and receivables.
 - ✚ Fixed Assets - assets with a relatively long useful life. Example: equipment, furniture, buildings & land
 - ✚ Other Long-term Assets – examples are endowments and pledges to be paid over more than one year
- Liabilities – What the organization owes to others
 - ✚ Current Liabilities – liabilities payable within 12 months (invoices, payroll)
 - ✚ Long-term Liabilities – obligation with a due date of longer than one year (loans)
- Net Assets: The difference between total assets and total liabilities
 - ✚ Unrestricted Net Assets – accumulated operating surpluses from prior years and gains on restricted investments.
 - ✚ Temporarily Restricted Net Assets – funds limited by donor stipulations that can be met by the organization or expire over time (grants and term endowments are typical examples)
 - ✚ Permanently Restricted Net Assets – a donor has stipulated that these funds must remain intact into perpetuity (endowments)

Other Financial Terms

- Accrual-Basis Accounting – transactions are recorded as expenses when they are incurred and when income is earned rather than paid and received.
- Cash-Basis Accounting – transactions are recorded when cash is received or spent.
- Operating Statement – a financial report that summarizes income and expenses for a given period of time.
- Restricted Funds – contributions restricted by a donor or grantor for a specific use.
- Unrestricted Funds – contributions given without restrictions as to use.
- Working capital – funds that are not invested in fixed assets or obligated to pay current liabilities but are available to fund day to day working needs. (current assets less current liabilities)

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Operational Funds for a Non-Profit Organization Review

- Unrestricted Operating Funds – Income and Expenses for which there are no donor restrictions as to how the funds are expended.
- Temporarily Restricted Operating Funds – Income and Expenses that are donor restricted (examples include grants for specific operating programs or a specific purpose such as annual scholarships)
- Permanently Restricted Operating Funds– contains funds that donors have stipulated be maintained in perpetuity such as endowment funds

Review of Non-Profit Accounting Principles

- “Extensive financial experience with a for-profit organization generally does not adequately prepare a board member for interpreting non-profit financial statements”.
- One of the principle differences in nonprofit financial statements compared to for-profit entities is that the overall objective of a nonprofit is to realize its socially desirable goals and objectives for the community it serves rather than realize a net profit.
- Nonprofits can only serve their goals and objectives if they have sufficient cash to provide for various programs. This dependence upon cash flow has created a heavy responsibility to account for the resources they have. Donors want assurance that their donations are used for their intended purpose.
- A fund for accounting purposes is described as a discrete entity with a self-balancing set of accounts and operating much like a separate business. Each fund is segregated for the purpose of tracking activities in accordance with limitations or restrictions attached to the fund. Examples of such funds are:
 - Unrestricted and Restricted Operating Funds
 - Today, reporting financial activity by funds has been replaced by the Statement of Financial Accounting Standards 116 & 117 which describe the way non-governmental nonprofits should present their financial statements.
 - The impact of the SFAS reporting is now on “net asset” classifications rather than tracking each fund. Nonprofits can combine all funds with similar restrictions for reporting purposes and no longer have to track each fund on their annual financial statements.
 - Because of the complexity of the SFAS standards, many nonprofits choose to use traditional fund accounting for presenting interim financial statements to boards and other constituencies.
 - Quickbooks is the preferred accounting software for most smaller nonprofits because of its ease of use and cost but it isn’t designed to produce all of the reports for nonprofits that adhere to SFAS and GAAP (Generally Accepted Accounting Principles). If you are using Quickbooks, you will need to use spreadsheet applications to provide full financial reports and tax returns.

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Reports Needed by Your Board to Keep Informed

- Operating Statement by Account – showing income and expense for the period compared to budget
- Operating Statement by Program
- Balance Sheet – showing assets, liabilities & Fund Balances
- Cash Flow – projecting the flow of cash 8 – 12 months in the future
- Budget – approved annually before the start of the fiscal year
- Annual Financial Report and/or Audit
- IRS 990 Information Return
- Pro-forma's for major financial decisions

Preparing for Board Financial Presentations

- Invest time creating report formats using accounting software or spreadsheet programs
- If you don't have an accounting background, there are several options:
 - 1) Engage your bookkeeper or accounting firm as a special assignment;
 - 2) Engage a knowledgeable volunteer
- Keep in mind that your interim financial reports can be presented in any format as long as they depict accurately your financial operation.
- Keep your financial as simple as possible
- If you have been given restricted contributions or grants, be sure that your accounting system can track how these funds are used. Include a programmatic income statement and present your balance sheet by funds.
- Use summary income and expense categories to enable your board to focus on the big picture rather than managing day to day details.
- Always provide a narrative to accompany the reports. The Narrative should reference each report and highlight significant items and variances from plans.
- Place the reports in the hands of your board at least four or five days in advance of the meeting.
- Contact your board treasurer or chair to see if there are any questions

Suggestions for Keeping Interim Financial Statements Simple

- Consider excluding the recognition of fixed asset depreciation as an expense on your financial statements. Depreciation is not of consequence in nonprofit accounting.
- If you are carrying debt, and excluding depreciation, include the payment of both principal and interest as line item expenses in your statements.
- If you have an endowment large enough to provide significant operating revenue, treat it as a separate fund rather than co-mingling it with other assets. Variances in market values tend to distort other operations.

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- If you are running an unrelated operation that will pay income taxes on any profits, prepare separate financial statements for that operation.
- If your organization operates a number of restricted grants, consider preparing two operating statements – one by account and the other by program.

Role of the Board Finance Committee

- Budget Planning
- Fiscal Policy Recommendations
- Discuss Financial Statements in Detail including the Annual Audited Statements
- A finance committee isn't needed if the board as a whole can understand the financial information, provide guidance, and make financial decisions efficiently.
- A finance committee might be crucial for nonprofits with many complex funding sources and/or use loans, bonds, or other financing.

Reports for Special Situations Planning

- Trend analysis of primary income & expense categories for past 1 – 3 years.
- Information about the external environment and how it is affecting the organization.
- Financial implications of new programs & decisions (3 – 5 year financial forecast)
- Multiple budget scenarios based on different options under consideration

Taking Action

Sometimes, boards will be required to take action based upon variances from original plans. The board should receive:

- The income statement compared to budget and plans,
- An analysis as to the causes of the variances,
- Multiple scenarios based on the various options under consideration

In Times of Difficulty or Financial Crisis

During times of difficulty, the board will want to keep a closer watch over the organization's operations. You will need to:

- Provide more detailed information
- Report more frequently
- Update forecasts on a regular basis
- Manage cash flow vigilantly – increase the amount of detail included.