IN PARTNERSHIP
WITH

WIPFLi LLP
CPAs and Consultants

Helping People. Changing Lives.
Community Action Partnership
AMERICA'S POVERTY FIGHTING NETWORK

FISCAL FUNDAMENTALS FOR EXECUTIVE DIRECTORS

FISCAL FUNDAMENTALS FOR EXECUTIVE DIRECTORS

September, 2014

This document is intended for use of Community Action Agencies and other CSBG Eligible Entities within the Community Services Block Grant (CSBG) Network.

Community Action Partnership

The Community Action Partnership is the nonprofit, national membership organization representing the interests of the 1,000+ Community Action Agencies (CAAs) across the country that annually help 17 million low-income Americans achieve economic security. Whether it's a Head Start program, weatherization, job training, housing, food bank, energy assistance, financial education, or any of the other 40-plus distinct programs, CAAs work to make America a better place to live.

Wipfli. LLP

Wipfli ranks among the largest accounting and business consulting firms in the United States. Located in 20 offices in Minnesota, Wisconsin, Illinois, and Washington, Wipfli proudly serves thousands of clients throughout the Midwest and across the United States. Wipfli's nonprofit team helps keep organizations in compliance by providing services such as audit, accounting, tax, information technology, human resources, fraud and forensic exams, training and education, process improvement and workflow analysis, and strategic planning.

This publication was created by the National Association of Community Action Agencies – Community Action Partnership, in the performance of the U.S. Department of Health and Human Services, Administration for Children and Families, Office of Community Services Grant Number 90ET0428. Any opinion, findings, and conclusions, or recommendations expressed in this material are those of the author(s) and do not necessarily reflect the views of the U.S. Department of Health and Human Services, Administration for Children and Families.

The publication is provided free of charge to CSBG grantees and is part of the National T/TA Strategy for Promoting Exemplary Practices and Risk Mitigation for the CSBG program. To download the report, please visit www.communityactionpartnership.com.

FISCAL FUNDAMENTALS for Executive Directors

Table of Contents

Introduction

As a Community Action Agency Executive Director, what keeps you up at night? Do you worry about any of these things?

- Funder reports filed late
- Program managers scrambling at the end of grant periods to either stop spending or spend out any remaining grant funds
- Fiscal monitoring or auditor findings
- Not knowing if the organization is fiscally sustainable

These are the sort of issues that may result in having to pay back funds, or, even worse, losing grants. It is the Executive Director's job to ensure fiscal problems are identified and resolved before they get to this point. On a month-to-month basis, the Executive Director should be confident that fiscal operations are producing timely, accurate information, and that he or she has reliable financial information for decision-making.

How does an Executive Director do this? Executive Directors may not have a background in accounting and fiscal matters, but they *cannot* rely on the Chief Financial Officer (CFO) to assume responsibility for all fiscal matters. The Executive Director has an important role in fiscal leadership of the Agency.

The goal of this Guide is to prepare the Executive Director to be a successful fiscal leader by providing:

- Understanding of the Executive Director's roles and responsibilities in the fiscal functions of the Agency, and
- Information and tools to successfully carry out these responsibilities.

Before we get to the details of fiscal management, we will start with a discussion of fiscal leadership and the role of the Executive Director.

Fiscal Leadership

The Executive Director, the Board of Directors, the Finance Committee and the Chief Financial Officer all have important but different roles in fiscal leadership. Program directors have a role, too, but at the grant or program level, not organization-wide.

The following table lists fiscal leadership roles and responsibilities. The purpose of this table is to provide an overview of the role of each position or group.

Figure 1 – Fiscal Leadership Roles and Responsibilities

Who	Responsibilities	Examples of Actions
Board of Directors The Board of Directors is responsible for overall financial results and fiscal accountability.	• Assure effective financial management is in place • Establish and model the "tone at the top". The "tone at the top" is the general ethical climate of the organization and includes attitudes and actions that support and encourage ethical behavior. • Ensure controls, processes, and checks and balances are designed and working properly.	• Review and approve fiscal policies and procedures • Review monthly financial reports • Hire the auditing firm and meet with the auditor after the audit is completed • Ask questions to understand financial information and internal controls
Board Treasurer and Finance Committee The Board Treasurer and Finance Committee oversee financial results and are closer to the fiscal details than the full Board.	• Oversight of financial management and financial reporting • Oversee the annual budgeting process • Oversee management of the organization's investments	• Review financial information in more detail than the full board • Recommend actions in the fiscal area to the full board • Review risk management and adequacy of insurance • Plan the budget process with the Executive Director and the CFO • Meet with the investor advisor and review positions and results
Executive Director The Executive Director is accountable to the Board for all organization results, fiscal and programmatic.	• Oversight of financial results • Oversight of internal controls • Supervision of the CFO	• Monitor fiscal results and processes • Review and approve financial statements • May review and approve key transactions • Lead the annual budgeting process • Meet regularly with the CFO for updates and planning • Meet with the Finance Committee • Co-present with the CFO financial information to the Board • Meet with the auditor to discuss audit observations and recommendations
Chief Financial Officer The CFO is the	• Produce accurate, timely financial statements • Ensure fiscal processes	• Supervise and train fiscal staff and program staff with fiscal responsibilities such as approving

organization's fiscal expert.	incorporate effective internal controls and are carried out properly	expenditures and developing program budgets • Review and approve transactions and reports • Ensure that daily transaction processing functions according to management's policies • Meet with the Finance Committee • Co-present with the Executive Director financial information to the Board • Serve as the primary auditor contact

In order for the Executive Director to successfully carry out these responsibilities, he or she should be familiar with federal grant regulations. Program managers should be the experts on their specific grants but the Executive Director must be grounded in administrative regulations as well as allowable costs. He or she also needs a basic understanding of financial statements and internal controls.

We will address the following topics:

1. **Internal Controls** – The basis of timely and accurate financial information is an effective system of internal controls. If you have weak internal controls, you can't rely on any financial information.

2. **Budgets** – Budgets are your fiscal plans. You are required to budget for your funding sources, and you also need to budget for Board of Directors and management planning purposes. Budgeting for internal purposes will help you plan organization-wide so you can meet your goals.

3. **Financial Statements** – Financial statements include the statement of financial position (balance sheet), the statement of cash flow and the statement of activities (revenue and expenses). Included in these discussions are analyses of cash reserves and cash flow.

4. **Financial Information for Decision-Making** – What should you look at monthly and annually? What are the most effective ways to provide financial information for the Board of Directors? The last section provides discussion and examples of reporting formats including dashboards and trend analysis.

Topic 1 - Internal Controls

Red Flags – Do these sound familiar?

1. Our CFO is a check signer because she's always there.
2. Our payroll clerk sets up new employees and enters all employee changes.
3. The accounting clerk who reconciles the bank account also prepares bank deposits and takes them to the bank.
4. The CFO is solely responsible for monitoring internal controls.

If any of these statements are true for your organization, you probably have some weaknesses in your internal control system.

In this section, we discuss what internal controls are, and how to assess your internal controls. The goals of this section are:

1. Define internal controls and discuss their importance; and
2. Describe the process for assessing and monitoring internal controls

But first, let's look at the red flags. Do you see the internal control flaws? These are all examples of lack of segregation of duties. Every fiscal function needs more than one person involved to serve as a check and balance on the process. The specific problems identified above are:

1. The CFO has authority and oversight of all fiscal functions, so the final authority to pay out funds should reside outside the fiscal department.
2. The payroll clerk processes the payroll and produces payments to employees. Therefore, the ability to make adjustments would enable that position to enter an unauthorized change. Someone not involved in the payroll process should enter new employees and employee changes.
3. Bank accounts should be reconciled by someone who has no responsibilities for either preparing checks or making deposits. The bank reconciliation is a check on those processes so the reconciler should not perform those functions.
4. The CFO monitors internal controls, but these are also management and the Board of Director's responsibilities.

Internal Controls Explained

Internal control is a process overseen by the Board of Directors, and created and implemented by senior and other managers designed to provide reasonable assurance about achievement of the entities objectives.

A widely-used framework for internal controls was developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). COSO is dedicated to providing leadership through the development of comprehensive frameworks and guidance on internal control, risk management and fraud deterrence. It is sponsored and funded by the American Accounting Association, the American Institute of Certified Public Accountants (AICPA), Financial Executives International, the Institute of Management Accountants, and the Institute of Internal Auditors. You can learn more about COSO at www.coso.gov.

Following are components of the framework.

1. Objectives of internal controls:
   a. Effectiveness and efficiency of operations;
   b. Reliability of financial reporting; and
   c. Compliance with applicable laws and regulations.

2. A subset of each of these objectives is safeguarding assets from:
   a. Ineffective or inefficient use;
   b. Unauthorized acquisition, use, disposal or theft; and
   c. Illegal use.

3. Components of an internal control system include the following
   a. The **control environment** includes integrity and ethical values of management, commitment to competence, and Board of Directors oversight and interaction with auditors. This is also known as the "tone at the top".
   b. **Risk assessment** is management's identification and analysis of risks such as regulatory changes, new personnel, new technology, and rapid growth or downsizing.
   c. **Control activities** are policies and procedures to help ensure management's directives are carried out. These include:
      i. Physical controls such as keeping blank checks locked up,
      ii. Information processing controls such as such as accuracy checks for data entry,
      iii. Performance reviews such as budget-to-actual comparisons, and
      iv. Segregation of duties.
   d. **Information and communication** refers to the methods and records used to record, process, summarize and report transactions such as timely financial reporting.
   e. **Monitoring** is assessing the quality of internal control performance over time and includes internal and external audits.

4. These internal control system components help achieve the following goals of fraud protection:
   a. Prevent as much as possible;
   b. Use detective controls to catch what cannot be prevented;
   c. Ensure against acts that are not prevented or detected;
   d. Continually update your understanding of fraud risks and manage those risks; and
   e. Make it everyone's responsibility to be part of fraud deterrence.

Fiscal internal controls are documented in the organization's fiscal policies and procedures. Standards 8.10 and 8.11 of the CSBG Organizational Standards address fiscal policies. Standard 8.10 requires that fiscal policies be reviewed every 2 years and updated as needed, and approved by the Board of Directors. Standard 8.11 requires that procurement policies be reviewed and updated every 5 years. These are effective internal controls because documentation of management's policies and the procedures to carry them out will help ensure controls are working properly.

Assessing Internal Controls

It is ultimately the Board of Directors and senior management's responsibility to ensure the organization's internal control environment and structure are in place and operating correctly.

Here are some questions to ask to help you understand your internal control environment, and guide you toward improvement.

- How do we communicate our organization's values for integrity and ethical behavior to every staff member? Examples:
    - New employee orientation can set the tone for ethical behavior
    - Code of ethics, including the conflict of interest policy, should be reviewed and signed annually by all employees
    - Policy on suspected misconduct including whistleblower protection, and employee and employer rights
    - Open door policy and practice by welcoming good news as well as bad news. For Executive Director/CEO and senior management, the more you know, the better.

- What are our key fiscal controls and how do we know they are working properly? Examples:
    - **Preventive controls** are designed to prevent errors, fraud or illegal acts from being committed. Examples:
        - Locks on file cabinets containing sensitive data
        - Completely blank check stock so all information, including bank coding, is printed on the checks
        - Accounting staff has access only to the sections of the accounting software required for their jobs
    - **Detective controls** are designed to detect errors, fraud or illegal acts and allow for corrective action. Every system must have both preventive and detective controls. Examples:
        - Timely reconciliation of bank accounts including examining cleared checks for correct amount and payee
        - Review of budget-to-actual financial reports by fiscal and program managers, and by the Executive Director and the Board of Directors.
    - **Segregation of duties** to make it impossible to commit and conceal fraud. Examples:

        - Separate functions involving handling funds from those recording funds.
        - Separate ordering goods from receiving them and approving the invoice for payment.

- What does your auditor recommend to improve internal controls? Your external auditor is required to gain an understanding of internal controls and to communicate deficiencies, but the audit team may also see areas that aren't deficient but could be improved. It is the role of the Executive Director/CEO to ensure identified deficiencies or areas of noncompliance are resolved.

- Who is responsible for identifying risks and communicating those risks to management and Board?
    - This is every manager's responsibility but they need to learn how to identify risks, and have a forum to discuss them.
    - Best practice: hold regular senior management team meetings and make a discussion of risk a standing agency item.

Monitoring Internal Controls

Everyone in the organization is responsible for effective internal controls because every position is required to carry out tasks and procedures according to management's policies. In addition, every employee should be aware of the importance of ethical behavior and how internal controls reinforce and standardize that behavior.

As leader of the organization, the Executive Director must be confident that controls are working properly. Here are actions the Executive Director can take to gain this confidence:

- Take every opportunity to check that procedures are being followed. For example, Executive Directors often sign checks or review check runs. They also approve purchase orders. Review these documents for appropriate approvals and documentation.
- The Executive Director must be able to rely on managers and supervisors to know their programs and organizational policy. The hiring and training processes must be designed to get the right people in the right places and provide the training they need. The Executive Director should be involved with these processes to ensure they are producing the best results.
- Weekly meetings with the CFO and other managers provide good opportunities to discuss how well controls are working. The Executive Director could ask each manager how they know controls are working in their areas, and how they train their staff on them.

The most important aspect of implementing effective internal controls is awareness. Every manager, including the Executive Director, must be aware of the significance of the design and implementation of effective controls and communicate it to their staff.

Topic 2 - Budgets

Budgets are road maps for the organization to follow. They lay out the fiscal plans for the next year. A well-run Community Action Agency must have an organization-wide operating plan against which it will assess results and plan short-term and long-term actions. Pulling together an organization-wide budget from many grants and programs, as well as multiple year-ends, is time-consuming and requires input from many parties, but the benefits of this fiscal road map will outweigh the costs.

The goal of this section is to explain a process for developing a budget for the organization as a whole. The objective is to understand the budgeting process, roles of the parties involved and the timing of the process.

Red Flags – Do these sound familiar?

1. Budgeting for each program separately provides all the information we need to manage the organization.
2. The fiscal department prepares the annual budget based on last year and program managers are responsible for carrying it out.
3. Our fiscal year end is December 31, so our board approves the annual budget by the end of the first quarter (March 31) of the new fiscal year.
4. We don't budget for capital expenditures because we don't know if we will have the funds to pay for it.

These statements concern the following issues:

1. Budgeting for each program is necessary but not sufficient for managing the organization as a whole. As explained in the next section, senior management and the Board of Directors must see how all components fit into the whole organization.
2. The fiscal department plays an important role in the budgeting process but program directors, the Executive Director and the Board of Directors must all be involved.
3. The annual budget must be approved prior to the start of the fiscal year so it can guide decision-making and planning throughout the year.
4. Good budgeting includes forecasting revenue for the entire year, and planning for all expenditures, including capital purchases.

In this section, we will discuss the benefits of organization-wide budgeting, how to budget, and who is involved at what point. We will also present an example timeline for an annual budget.

Benefits of an Organization-wide Budget

Individual grant budgets are a good starting point for an organization-wide budget, but it will take time and resources to create an organization wide budget. This is due to the complexities of multiple grant year-ends, the need to forecast future funding levels and individual grant budget restrictions. Therefore, boards, Executive Directors and CFOs might ask if it is worth the effort.

Yes, it is worth the effort and an organization-wide budget also complies with Standard 8.9 of the Community Services Block Grant Organizational Standards & Implementation Framework which stipulates "The governing board annually approves an organization-wide budget."

Here are benefits. An organization-wide budget will:

- Help you allocate discretionary or flexible funds. For example, Community Service Block Grant (CSBG) funds may be used to support other grants and an organization-wide budget can help you analyze the most effective uses of that funding.
- Help limit management and general expenses. This is the tool that will help you analyze what the organization can realistically afford for administrative and general costs.
- Provide a control for safeguarding assets. Monthly budget-to-actual comparisons for all expenses, not just grant or program expenses, will give you early notice of unexpected deviations.
- Provide the general direction of the organization for the near and the long term. A budget is a plan and therefore, more detailed in the current year, and more general in future years. The farther into the future the budget goes, the more likely it is to be a best guess, but it's a good starting point for planning how to get where you want to be.
- Provide an opportunity to Board members to give input into the budget planning process. Your Board members have experiences and perspectives that can add value to the budget planning process. Soliciting their feedback throughout the process should strengthen the results.
- Provide financial information to Board members and managers to help them monitor results and anticipate changes or problems. A key to good management is being able to anticipate the unexpected. Working through the budgeting process and monitoring the results will build this skill.
- Provide the ability to clearly see which programs or activities within the organization make or lose money.

Who is involved?

1. **The Board of Directors**:
    a. Is informed about the budgeting process including timing.
    b. May provide input on goals and assumptions.
    c. Approves the final budget and uses it throughout the year to monitor results.

2. **The Finance Committee** under the leadership of the Board Treasurer:
    a. Meets with the Executive Director and CFO to plan the budget process and timeline.
    b. The Board Treasurer may first meet with the Executive Director/CEO to set the overall strategy for the budget.
    c. May review an early draft and provide feedback. This is especially important if the organization anticipates situations such as funding cuts or reducing staff.
    d. The Board Treasurer communicates progress on the budget to the full Board, and brings the Finance Committee's questions or concerns to the full Board for discussion.

3. **The Executive Director**:
    a. Sets the direction of the organization for the short and long-term. The Executive Director is responsible for translating the Board's goals into non-detailed plans so that program managers can develop the details.
    b. Works with program managers to develop assumptions on future funding levels and related expenditures such as increases or decreases in staffing, considering individual program needs as well as those of the entire Organization.
    c. Usually provides the details of the budget for discretionary spending.
    d. In conjunction with the CFO presents the budget to the Board for its approval.

4. **The Chief Financial Officer**:
    a. Creates the budget for administrative costs including finance, human resources, information technology, and the office of the Executive Director.
    b. Provides estimated costs for salaries and benefits to program managers
    c. Provides program managers with a budget template so that budgets are consistent across the organization
    d. Pulls together all components into a single budget and reviews it with the Executive Director.
    e. Presents a draft of the final budget to the Finance Committee for review and input.
    f. In conjunction with the Executive Director, presents the budget to the Board.
    g. Prepares and presents budget-to-actual analyses to the Board every month for individual programs and organization-wide.

5. **Program Directors**:
   a. Are responsible for the details of their specific budgets. For example:
      i. Layoffs or hiring freezes. These actions are usually approved by the Board but the program directors typically identify the need and, with the guidance of the Executive Director, provide specific recommendations.
      ii. Salary adjustments in cooperation with the Executive Director/CEO
      iii. Program supplies
      iv. Space costs
   b. Are in the best position to consider the fiscal impact of issues such as:
      i. Staff training needs
      ii. Positions to be filled or eliminated
      iii. Capital assets that may need to replaced

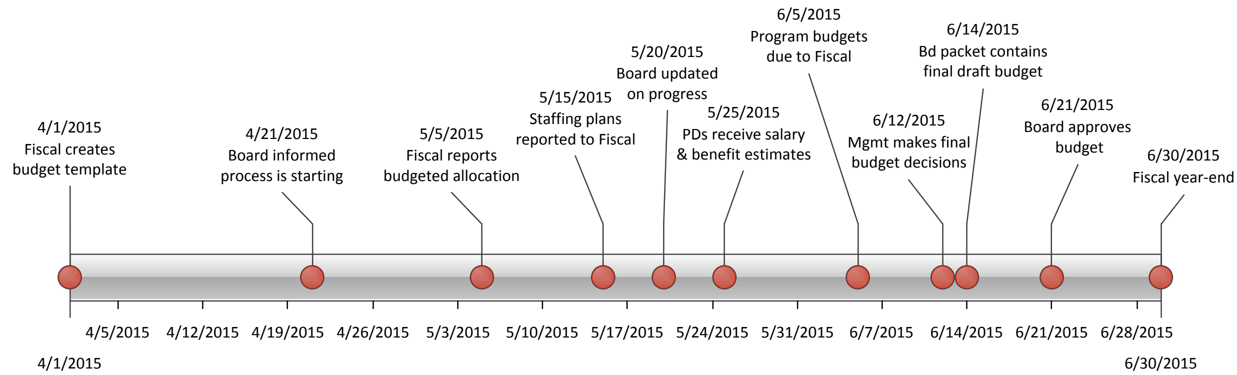
Timing of the Budgeting Process

The Board should approve the budget *prior to the start* of the new fiscal year so work backward from that date to develop a timeline. For example, if the fiscal year-end is June 30, here is a calendar of budget-planning deadlines.

- June 21: Board approves the budget
- June 14: Board packet mailed out with final draft of budget
- June 12: Final budget decisions made by management
- June 5: Program Director budgets due to the fiscal department for non-salary expenses
- May 25: Fiscal department provides estimate of salaries and related expenses to program directors
- May 20: Board of Directors is updated on the status of the budgeting process
- May 15: Deadline for program directors to have staffing levels to the fiscal department
- May 5: Fiscal department communicates allocated expenses to the program directors who start their budgeting process
- April 21: Board of Directors is informed the budgeting process is starting and that the final budget will be presented at the June meeting for approval
- April 1: Fiscal department rolls forward budgeting documents and tools from the prior year and prepares the budget for the departments that are allocated to all the programs (finance, HR)

Here is the same information presented on a timeline for a fiscal year end of June 30th:

Figure 2 – Timeline for Budgeting Process (June 30th fiscal year end)



The timeline should be reviewed by the Board Treasurer and Finance Committee and discussed in senior management meetings. Managers should be held accountable for meeting their deadlines.

If this is a first attempt at organization-wide budgeting, consider moving the starting point back a month. But starting too early in the year will give you fewer actual results on which to base the next budget.

Budgeting Tips

The following suggestions will help you develop a more accurate budget.

1. Build the correct timing assumptions into the budget. If a program does not operate all 12 months, budget costs and revenue in the actual months of operation. Many programs do not incur expenses evenly throughout the year. Therefore, to accurately predict monthly costs, budget expenses at the time and in the amount they expect to be paid.

2. Community Action Agencies have the challenge of multiple grant year-ends, most of which do not coincide with the organization's fiscal year-end. The CFO is responsible for coordinating grant years with the fiscal year for the budget. This can often be done using reporting features of fund accounting software, but can also be done using spreadsheets. The Executive Director/CEO is responsible for monitoring the budget for proper dates, and working with the CFO to communicate to the Board how program budgets are included in the organization-wide budget.

3. Budgeting salaries, wages and benefits will be more accurate if you are specific as possible.
    a. List employee title, location, and name of person now in the position
    b. Include all taxes (FICA, workers' compensation, etc.) and employer retirement contributions

   c. The CFO will set up these calculations in a spreadsheet to make it easy to run various scenarios.

4. Include the impact of fixed and variable costs. The CFO will develop models for these costs but the Executive Director should understand how different types of costs affect budgeting.
   a. Fixed costs won't change in the short term. For example, rent is required to be paid through the term of the lease.
   b. Variable costs change based on outcome. For example, the costs of meals will depend on how many meals are served.

5. Identify costs that can be accelerated or delayed. For example, some repairs or maintenance costs can be deferred to the next period if needed.

6. The CFO will budget allocated costs using the organization's cost allocation methods. This is an important step in assessing the total budget. Can each program pay its fair share of allocated costs, and, if not, how will they be paid?

The following is an example of a basic organization-wide budget.

Figure 3 - Basic Organization-Wide Budget

	Head Start	CSBG	Weatheri-zation	State Housing Grant	Fund-raising Event	Service Grant	Discretionary	Admin Expense Pool	Total
Revenue:									
Grant revenue	6,202,931	2,893,182	7,001,533	645,381	-	-	-	-	16,743,027
Program income	98,042	-	-	284,789	-	-	-	-	382,831
Other income	-	-	-	-	35,408	65,048	860	-	101,316
Total Revenue	6,300,973	2,893,182	7,001,533	930,170	35,408	65,048	860	-	17,227,174
Expenses:									
Salaries	3,457,895	1,413,978	2,804,387	640,752	18,406	9,204	205	743,945	9,088,772
Fringe benefits	1,469,248	834,801	1,604,789	248,904	8,297	3,004	94	307,823	4,476,960
Supplies	365,087	36,484	930,481	34,057	483	5,804	236	23,841	1,396,473
Occupancy	168,974	46,089	143,657	21,042	102	810	45	209,871	590,590
Travel	56,048	60,787	304,897	10,564	35	724	130	65,412	498,597
Other	190,487	100,291	841,098	18,467	209	2,105	657	80,741	1,234,055
Indirect/admin expenses	593,234	242,581	481,119	109,927	3,158	1,579	35	(1,431,633)	-
Total Expenses	6,300,973	2,735,011	7,110,428	1,083,713	30,690	23,230	1,402	-	17,285,447
Profit/(loss) before transfers	-	158,171	(108,895)	(153,543)	4,718	41,818	(542)	-	(58,273)
Transfers:									
CSBG support	-	134,084	(106,877)	(27,207)	-	-	-	-	-
Indirect/admin support	-	24,087	(2,018)	(109,927)	-	-	87,858	-	-
Discrectionary/corporate support	-	-	-	(16,409)	-	-	16,409	-	-
Net transfers	-	158,171	(108,895)	(153,543)	-	-	104,267	-	-
Profit/(loss) after transfers	-	-	-	-	4,718	41,818	(104,809)	-	(58,273)

Notes

- Profit/(Loss) before transfers – this line shows the profit/loss from each grant or activity.
- Transfers – Based on the Profit/(Loss) amounts, the Agency can then determine how to budget funds that can support other grants, such as CSBG funding and discretionary funds. It may also be possible to transfer indirect costs from grants with losses to other funding sources that allow such transfers. The ability to reallocate funds and/or costs can be very important to an organization facing decisions such as terminating programs or laying off employees.
- This example shows grants in total. An agency could choose to break out the organization-wide budget in further detail to show program periods for grants that do not coincide with its fiscal year.

Organization-wide budgeting takes staff and management time which is usually at a premium in Community Action Agencies. However, the benefits will be worth the cost. Management and the Board will have useful tool for assessing fiscal results and planning for the future.

Topic 3 - Analyzing Financial Information

Current financial statements are the best source of management information. If you know where you stand today, you'll have a good basis for acting tomorrow. In this section, we will review the following statements:

- Statement of Financial Position (Balance sheet)
- Statement of Activities (Revenue and Expenses)
- Statement of Cash Flows

This section will present tools that an Executive Director can use to monitor the organization's financial situation. The goal of monitoring is to be able to make operational decisions related to current matters affecting the organization, and to make long-term strategic decisions in partnership with the board of directors.

Standard 8.7 of the Community Services Block Grant Organizational Standards & Implementation Framework states:
"The governing board receives financial reports at each regular meeting that include the following:

1. ***Organization-wide report on Revenue and Expenditures that compares Budget to Actual, categorized by program; and***
2. ***Balance Sheet/Statement of Financial Position."***

Therefore, the Executive Director needs a good understanding of these statements so he or she can co-present them to the board.

Red Flags

1. The organization has a positive balance in unrestricted net assets and therefore it must be fiscally sound.
2. The CFO reports that the current ratio is .75. Is that a good ratio?
3. Expenses are budgeted evenly across the year but the biggest program spends most of funding in the last quarter of the year.

These red flags point out problems in understanding and using financial data. The specific issues are:

1. A positive balance in unrestricted net assets may be due to the book value (original cost less accumulated depreciation) of property and equipment. Property and equipment are not liquid and can't be used as cash to support programs or meet immediate needs. A financial statement reader must examine the makeup of net assets to determine if the organization is fiscally sound.

2. The current ratio is the ratio of current assets divided by current liabilities. A ratio of less than 1 indicates that the organization has more current liabilities than current assets and, therefore, may have difficulty meeting its financial obligations in the next year.

3. Expenses should be budgeted in the month they are expected to occur. Spreading costs evenly when they aren't incurred in that manner will distort the budget-to-actual analysis.

In this section, we will examine these questions and others to help the Executive Director understand financial information and know what questions to ask.

Meetings with the CFO

A regularly-scheduled meeting between the Executive Director and CFO will provide the Executive Director on-going information on fiscal matters. The Executive Director will learn more about finances and financial statements, and the CFO will keep current on plans and events that may affect fiscal planning.

The Executive Director and CFO should formally meet on a weekly basis for approximately 30 minutes. Discussion points should include:

- Budget vs. actual expenses on an individual grant basis;
- Status of grants receivable – are there any funding sources that have not paid timely?
- Concerns about cash flow or meeting fiscal obligations; and
- Other matters requiring the attention of the Executive Director or the CFO.

While a formal meeting should take place weekly, a properly functioning Executive Director/CFO relationship will include daily informal discussions. Issues come up on a daily basis that need to be dealt with. For example, as a large grant is being closed out, budget vs. actual expenses might be reviewed daily to inform decisions being made on purchases in the current grant award period.

Meetings with the Leadership Team

The Executive Director/CEO will also meet regularly with other senior leaders as a group and individually to discuss current and future issues that affect each program and the entire organization. Fiscal matters should always be on the agenda for these meetings. These discussions should include:

Meetings with Individual Managers

- Most recent fiscal results including budget-to-actual comparisons
- Plans for the foreseeable future that will affect budgeting
- Any need for prior approval from funding sources for budget changes
- Other matters that might affect fiscal results

Meetings with the Leadership Team

- Current budget-to-actual fiscal results for the organization as a whole
- Plans for specific departments or programs that will have a fiscal impact on the organization
- Other fiscal matters members of the team would like to discuss

In additional to formal meetings, the Executive Director/CEO should encourage ongoing, informal conversations to maintain the flow of information issues, questions, and concerns can be dealt with immediately.

Statement of Financial Position

Following is an example of a statement of financial position (balance sheet) of a Community Action Agency with an annual budget of $25,000,000. The statement will help the reader determine how fiscally sound the organization is. Important factors to determine fiscal health are explained following the statement.

Figure 4 – Sample Statement of Financial Position

Example CAP, Inc.

Statement of Financial Position

December 31, XXXX

Assets			
Current assets:			
Cash	$	81,326	A
Investments		1,696,979	B
Grants receivable		1,206,000	
Accounts receivable, net		291,073	
Other assets		149,300	
Total current assets		3,424,678	C
Long-term assets:			
Beneficial interest in assets held by others		80,351	
Other assets		63,408	
Total long-term assets		143,759	
Property and equipment, net		7,127,394	D
TOTAL ASSETS	$	10,695,831	
Liabilities and Net Assets			
Current liabilities:			
Line of credit	$	330,000	E
Current portion of notes payable		426,586	
Accounts payable		691,413	
Accrued payroll and related expenses		981,968	
Grant funds received in advance		60,563	
Total current liabilities		2,490,530	C
Long-term portion of notes payable		3,500,923	
Total liabilities		5,991,453	
Net assets:			
Unrestricted		3,060,827	F
Temporarily restricted		1,643,551	
Total net assets		4,704,378	
TOTAL LIABILITIES AND NET ASSETS	$	10,695,831	

Following are some points to consider when analyzing this balance sheet:

A. **Cash.** Cash of $81,326 for a $25,000,000 organization appears low. While there is no specific guidance on how much cash an organization should have, a good guideline is to have a liquid cash balance of 2.5% to 5% of revenue. For a $25,000,000 organization, this would suggest a minimum cash balance of $625,000 to $1,250,000.

B. **Investments.** It may appear that if an organization has a significant amount of investments, the organization is financially sound. But these investments may be restricted for a particular purpose and therefore not available for general organizational needs.

C. **Total Current Assets and Total Current Liabilities**. Accountants often speak of a term called "current ratio". The current ratio measures the ratio of current assets to current liabilities. **Current assets** are cash or items that will convert to cash within the next year. **Current liabilities** are amounts to be paid in cash in the next year. In this case, the organizations current ratio is calculated as follows:

   Current Assets - $3,424,678 divided by
   Current Liabilities - $2,490,530 equals
   Current Ratio – 1.375

   Ideally, the current ratio should always be 1 or greater. This indicates the organization has sufficient funds to pay its obligations in the next year. For the example organization, even though the cash balance is less than ideal, the organization is not in dire financial condition since the current ratio is greater than 1.

D. **Property and Equipment, Net**. In a Community Action Agency, property and equipment are often purchased with federal grant funds. The respective funding sources retain a reversionary interest in property and equipment. Additionally, Federal regulations prohibit using grant funded property or equipment as collateral on debt unless prior approval is obtained from the awarding agency.

   Therefore, grant-purchased property and equipment cannot be used to help an organization pay its operating obligations by either using it as collateral, or by selling it for cash.

E. **Line of Credit.** Some organizations carry a line of credit to use in the event of a cash emergency. While it can be useful when reimbursement payments are delayed, it can also be an indicator that your organization's cash management procedures need improvement. For example, if state grants reimburse expenses monthly, agencies should not pay those expenses until reimbursements are received, if at all possible.

As stated in D above, a line of credit cannot be collateralized with grant-purchased property and equipment unless prior approval is obtained from the awarding agency. In addition, interest on the line of credit is not allowable for federal grants.

F. **Unrestricted Net Assets**. Net Assets are the difference between an organization's total assets and liabilities and, therefore, is the organization's net worth. In some organizations, the net asset balance can be a deficit. A net asset deficit can result in a *going concern* disclosure in the audit report. This means the auditor has doubt about the organization's ability to be in business one year from the date of the balance sheet.

Generally Accepted Accounting Principles (GAAP) defines unrestricted net assets as the part of an organization's net assets that are not temporarily or permanently restricted. Unrestricted net assets are only limited by purposes identified in the articles of incorporation, bylaws or other contractual arrangements. Essentially, they are available for management and the board of directors for almost any purpose they choose. The importance of unrestricted net assets will be discussed in the next section.

Figure 5 - Statement of Financial Position, Breaking Out Restricted and Unrestricted

Another way to analyze the statement of financial position is to break out grant funded and other restricted activities from unrestricted activities. Following is an example to help you visualize this scenario.

	Restricted or Grant Funded	Unrestricted	Total	
Assets				
Current assets:				
Cash	$ 141,045	($ 59,719)	$ 81,326	A
Investments	1,696,979	0	1,696,979	B
Grants receivable	1,206,000	0	1,206,000	
Accounts receivable, net	144,566	146,507	291,073	
Other assets	149,300	0	149,300	
Total current assets	3,337,890	86,788	3,424,678	
Long-term assets:				
Beneficial interest in assets held by others	80,351	0	80,351	
Other assets	63,408	0	63,408	
Total long-term assets	143,759	0	143,759	
Land, building, and equipment, net	2,264,275	4,863,119	7,127,394	C
Total assets	$ 5,745,924	$ 4,949,907	$ 10,695,831	
Liabilities and Net Assets				
Current liabilities:				
Line of credit	$ 0	$ 330,000	$ 330,000	
Current portion of notes payable	13,736	412,850	426,586	
Accounts payable	655,008	36,405	691,413	
Accrued payroll	981,968	0	981,968	
Grant funds received in advance	60,563	0	60,563	
Total current liabilities	1,711,275	779,255	2,490,530	
Long-term portion of notes payable	126,823	3,374,100	3,500,923	
Total liabilities	1,838,098	4,153,355	5,991,453	
Net assets:				
Unrestricted	0	796,552	796,552	
Unrestricted - grant funded equipment	2,264,275	0	2,264,275	
Total unrestricted net assets	2,264,275	796,552	3,060,827	D
Temporarily restricted	1,643,551	0	1,643,551	
Total net assets	3,907,826	796,552	4,704,378	
Total liabilities and net assets	$ 5,745,924	$ 4,949,907	$ 10,695,831	

The more unrestricted net assets your organization has, the more solid your financial position is.

A. **Cash.** Unrestricted cash has a negative balance of $59,719. This is an indication that cash from restricted operations is providing cash flow to the organization. Ideally, the unrestricted cash in this example would be $625,000 to $1,250,000 as previously mentioned for an organization with a $25,000,000 annual budget.

B. **Investments**. Investments of an organization may be restricted. In this example, the investments are restricted for a particular purpose and therefore cannot be used for general operations.

C. **Property and Equipment, Net**. In this example, property and equipment purchased with grant funds are recorded as unrestricted net assets. However, these assets cannot be sold to pay operating expenses, therefore, their value is included as restricted/grant funded for purposes of determining the organization's true net worth.

D. **Total Unrestricted Net Assets**. Even though the organization has what appears to be a large unrestricted net asset balance of $3,060,827, this breakout demonstrates that $2,264,275 consists of property and equipment purchased with grant funds. This leaves $796,552 of true unrestricted net assets.

   Unrestricted net assets do not necessarily represent cash. Cash is only one of the components of unrestricted net assets as represented by the deficit unrestricted cash position. In this case, the positive unrestricted net asset position of $796,552 is a result of unrestricted property and equipment.

Statement of Activities

The statement of activities shows revenues and expenses and is likely the financial statement you are most familiar with. Our example is *comparative* which means it compares the results of this year with the results of last year. Comparing this year to last year is also a good way to analyze the statement of activities. This example shows the results for the entire organization but this report should also be prepared for each program.

Figure 6 - Statement of Activities

Any Cap

Comparative Statement of Activities

	June 2013	June 2014	Change	Percent Change	Notes
Revenue:					
Grant revenue	$ 894,051	$ 932,923	38,872	4.3%	
Program/other income	18,614	19,424	810	4.4%	
In-kind contributions	26,566	27,721	1,155	4.3%	
Total revenue and support	939,231	980,068	40,837	4.3%	
Expenses:					
Salaries and wages	260,815	272,155	11,340	4.3%	
Fringe benefits	79,933	126,084	46,151	57.7%	50% increase in health insurance rates
Contracted services/consultants	22,067	14,068	(7,999)	-36.2%	Hired a health consultant for a 1 time project that did not occur in 2014
Co-funding	111	116	5	4.5%	
Day care provider payments	54,135	56,489	2,354	4.3%	
Energy assistance	235,681	245,928	10,247	4.3%	
Weatherization	124,772	130,197	5,425	4.3%	
Food	8,702	9,080	378	4.3%	
Insurance	1,845	1,925	80	4.3%	
Occupancy	21,666	22,607	941	4.3%	
Supplies	39,701	41,427	1,726	4.3%	
Travel	10,326	10,775	449	4.3%	
Other	27,481	28,675	1,194	4.3%	
In-kind	26,566	27,721	1,155	4.3%	
Total expenses	913,801	987,247	73,446	8.0%	
Change in net assets	25,430	(7,179)	(32,609)	-128.2%	

The objective for analysis of the statement of activities is the same as for the statement of financial position. Is the organization operating on a sound financial basis? Notice that the CFO has made notes on certain accounts to explain changes from year to year.

A reader of these statements should consider if the reports appear reasonable by assessing the following criteria:

- Are there any accounts that are significantly higher or lower compared to the previous year? Do you understand the change from last year to this year?
- Are there any odd looking accounts? An example of an odd-looking account might be food costs in the Weatherization program because Weatherization funds are not typically used for food.
- If you see something that doesn't look right, ask questions.

Statement of Cash Flows

Cash is the life-blood of every organization. The Executive Director is ultimately responsible for ensure the Agency has the resources to carry out its programs which means carefully monitoring cash. In this section we explain the Statement of Cash Flows which shows where cash is coming from and used for and is usually prepared by the Finance Director monthly. Please refer to the notes below the statement for explanations of each section.

However, Executive Directors must know the status of cash on a weekly basis. Methods for monitoring cash flow include discussing cash needs and anticipated cash receipts on agendas for weekly meetings with the Finance Director and program directors; and reviewing a cash position summary prepared by the Fiscal Department on a daily basis. Each Executive Director should develop methods that fit his or her organization's needs.

Figure 7 - Statement of Cash Flows

Statement of Cash Flows
Year Ended June 30, XXXX

Increase (decrease) in cash:			
Cash flows from operating activities:			
Change in net assets	$	249,485	
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation		477,862	A
Gain on disposition of capital leases		63,402	A
Receipt of donated equipment	(	193,579)	A
Net realized and unrealized gain on investments	(	112,323)	A
Net realized and unrealized gain on beneficial interest in assets held by others	(	9,267)	A
Changes in operating assets and liabilities:			
Grants receivable	(	272,372)	B
Accounts receivable	(	222,414)	B
Other assets	(	3,956)	B
Accounts payable		90,034	B
Accrued payroll and related expenses		58,882	B
Grant funds received in advance	(	103,728)	B
Net cash provided by operating activities		22,026	C
Cash flows from investing activities:			
Proceeds from sale of investments		62,273	D
Proceeds from beneficial interest in assets held by others		17,776	D
Purchase of property and equipment	(	316,253)	D
Net cash used in investing activities	(	236,204)	
Cash flows from financing activities:			
Proceeds from line of credit		180,000	E
Principal payments on notes payable	(	126,018)	E
Proceeds from borrowing		100,000	E
Net cash provided by financing activities		153,982	
Change in cash	(	60,196)	
Cash - Beginning of year		141,522	
Cash - End of year	$	81,326	
Supplemental schedule of operating activities:			
Interest paid	$	221,048	F
Supplemental schedule of noncash investing and financing activities:			
Debt acquired for purchase of equipment	$	427,000	G

A. This section of the cash flow statement shows items that are noncash, meaning they are items that reconcile the change in cash to the change in net assets but are items where cash does not flow into the organization or flow out. For example, an investment may increase in value because the stock market goes up, but this does not provide any additional cash to the organization.

B. This section shows the change in balance sheet accounts. Negative amounts indicate that the change in the account used cash while positive amounts indicate accounts that provided cash. For example, a negative change in grants receivable indicates that grants receivable has increased because more cash was used to cover what funding sources owe the organization.

C. Operating activities are an organization's daily operations. Cash flows from operating activities will not always be positive due to fluctuations in activities but should generally trend positive over the years.

D. Investing activities include purchases and dispositions of property and equipment and purchases and sales of investments. They can either use or provide cash depending on whether assets are bought or sold.

E. Financing activities are borrowing or payment of debt, and therefore, either provide or use cash.

F and G. Interest Paid and Debt Acquired are required disclosures that help the reader understand the use of cash during the year.

This statement of cash flows shows that the net change in cash is a negative $60,196. By reviewing the sections of the statement, we can see that more cash was used for investing activities, especially purchase of property and equipment, than was provided by operating or investing activities. Management and Board should compare these results to their plans for the year. Does the cash flow for the year meet the plans and goals they set?

Topic 4 - Financial Information for Decision-Making

Previous sections of the Guide have discussed reading and interpreting the basic financial statements, but there are many ways to display financial information. In this section, we will present several methods for tracking key financial indicators that will help you stay on top of fiscal information. These examples may also be useful for Board reports.

Red Flags

1. We get financial statements 30 to 45 days after the end of the month.
2. Members of the Board of Directors don't understand the financial statements they receive each month.
3. I don't have anything that tells me at a glance how we are doing.

These statements indicate a lack of useful financial information which will make it difficult to make good decisions. Here are solutions to these problems.

1. Financial statements should be available for program managers, senior management and Board as quickly as possible after the end of the month. A reasonable goal is to issue financial statements with a week of the end of the month.
2. Board training should include financial literacy, but it is also important to present fiscal data is a variety of formats including charts and graphs.
3. Executive Directors need daily information such as dashboards of financial data.

We discuss various methods for displaying and analyzing financial data in this section.
We will look at examples of the following reports:

- Monthly comparative statement of financial position
- Monthly agency-wide budget to actual reports
- Monthly grant status report showing the percentage of a grant spent in relation to the percent of time the award period has passed
- Financial Dashboards
- Ratios and trend analysis

Monthly Comparative Statements of Financial Position

This version of the statement of financial position compares last year to this year at the same point in time, and also provides the changes between years in dollars and percentages. Note that the CFO provided comments on significant changes to help the reader understand the differences between years.

Figure 8 – Comparative Statement of Financial Position

Any CAP
Comparative Statement of Financial Position
June 30, 2013 and 2014

	2013	2014	Change	Percent	Notes
Current assets:					
Cash and cash equivalents	$ 827,705	$ 1,081,347	253,642	30.6%	A result of the current year profit
Grants receivable	671,605	466,671	(204,934)	-30.5%	In the prior year, the state was 3 months behind in Weatherization payments
Prepaid expenses and other assets	66,079	52,326	(13,753)	-20.8%	
Weatherization work in process	129,345	142,604	13,259	10.3%	
Total current assets	1,694,734	1,742,948			
Property and equipment, net	247,898	326,421	78,523	31.7%	
TOTAL ASSETS	$ 1,942,632	$ 2,069,369			
Current liabilities:					
Accounts payable	240,419	219,285	(21,134)	-8.8%	
Accrued payroll and related expenses	248,246	168,067	(80,179)	-32.3%	The previous year included an extra 6 days to accrue
Accrued vacation	87,393	82,800	(4,593)	-5.3%	
Grant funds received in advance	83,278	57,431	(25,847)	-31.0%	
Total current liabilities	659,336	527,583			
Long-term liabilities:					
Notes payable	148,231	198,444	50,213	33.9%	Additional borrowing for building renovations
Total liabilities	807,567	726,027			
Net assets:					
Unrestricted	500,818	1,205,921	705,103	140.8%	Satisfaction of donor restrictions and current year profit
Temporarily restricted	634,247	137,421	(496,826)	-78.3%	Satisfaction of donor restrictions
Total net assets	1,135,065	1,343,342			
TOTAL LIABILITIES AND NET ASSETS	$ 1,942,632	$ 2,069,369			

The following are some additional questions to ask about the monthly statement of financial position.

- Does the statement of financial position balance? Assets should equal the total of liabilities and net assets
- Did we buy any equipment this month with agency funds? Do you see it recorded in Property and Equipment?
- Was any new debt incurred? Do you see it recorded in the Liabilities section?
- Accrued vacation can be charged to grants as employees use it (cash basis) or as employees earn it (accrual basis). The CFO should make a recommendation as to whether the cash or accrual basis is best for the organization. Under Generally Accepted Accounting Principles (GAAP), accrued vacation would be recorded under the accrual method, therefore if grants are charged on a cash basis, an adjustment to GAAP will need to be performed at year-end.

The CFO should be performing a more detailed review every month. The Executive Director typically doesn't see this level of detail but he or she should be certain that the CFO is reviewing it. This detail should answer these types of questions:

- Does the bank reconciliation agree to the general ledger? As discussed in the section on internal controls, reconciling bank accounts in a timely manner is a basic detective control.
- Are there any credit balances in your asset accounts, or debit balances in liability accounts? For example, a credit balance in accounts receivable might indicate an overpayment by a client; and a debit balance in accounts payable might indicate that the organization overpaid a vendor.
- Do subsidiary ledgers support the reported amounts on the statement of financial position? Subsidiary ledgers are the detailed accounts that add up to the balance on the statement of financial position. For example, the total of all the individual vendor accounts in the accounts payable module should equal the amount in the Current Liabilities section.

Monthly Agency-Wide Comparative Statements of Activities

The monthly comparative report is a very useful report for assessing the year's results because it shows how the current year compares to the previous year at the same point in time. This report should be reviewed for each program as well as agency-wide. This report shows revenue and expenses for the current and prior years as of June 30. It also shows the dollar amount and percentage of change. Note, too, the CFO comments next to significant changes.

Figure 9 – Comparative Statement of Activities

Any Cap

Comparative Statement of Activities

	YTD *June 2013*	YTD *June 2014*	YTD *Change*	YTD *Percent*	*Notes*
Revenue:					
Grant revenue	$10,728,611	$10,534,864	(193,747)	-1.8%	
Program/other income	223,373	442,746	219,373	98.2%	$200,000 donation from a wealthy person
In-kind contributions	318,795	154,591	(164,204)	-51.5%	Loss of donated space at XYZ site
Total revenue and support	11,270,779	11,132,201	(138,578)		
Expenses:					
Salaries and wages	3,129,778	3,051,939	(77,839)	-2.5%	
Fringe benefits	959,191	935,239	(23,952)	-2.5%	
Contracted services/consultants	264,808	209,738	(55,070)	-20.8%	
Co-funding	1,337	5,222	3,885	290.6%	
Day care provider payments	649,618	754,295	104,677	16.1%	
Energy assistance	2,828,177	3,033,728	205,551	7.3%	
Weatherization	1,497,269	1,513,554	16,285	1.1%	
Food	104,418	163,279	58,861	56.4%	
Insurance	22,134	33,127	10,993	49.7%	
Occupancy	259,986	409,246	149,260	57.4%	Cost related to additional space from building expansion
Supplies	476,407	384,909	(91,498)	-19.2%	
Travel	123,915	114,535	(9,380)	-7.6%	
Other	329,766	160,522	(169,244)	-51.3%	
In-kind	318,795	154,591	(164,204)	-51.5%	Loss of donated space at XYZ site
Total expenses	10,965,599	10,923,924	(41,675)	-0.4%	
Change in net assets	305,180	208,277	(96,903)	-31.8%	

This report should be produced as soon as possible after the end of the month. Best practice is to provide this report to senior and program managers no later than 1 week after the end of the month. Late financial statements are also an internal control concern. They may indicate that accounts are not being reconciled in a timely manner.

During the year, it is more important to be timely than accurate. This means that it should be substantially correct, but it's not worth taking extra time to account for every penny. Managers need information as soon as possible so they can make good decisions.

Monthly Agency-Wide Budget-to-Actual Statement of Activities

The monthly budget-to-actual statement of activities is the report that tracks results against plans. This is a report that Head Start requires to be provided to the Board and Policy Council every month. However, the management team and the Board of every organization should be reviewing this report monthly.

As noted in the budgeting section, good budgeting reflects anticipated activity during certain times of the year, not equally throughout the year.

To keep information current, as each month passes, replace the budgeted amounts with actual results. This will help improve your forecasting throughout the year.

Figure 10 – Budget vs. Actual

Any Cap

Budget vs. Actual

	YTD Budget June 2014	YTD Actual June 2014	Variance	Percent Variance	Notes
Revenue:					
Grant revenue	$ 10,200,000	$ 10,534,864	334,864	3.3%	
Program/other income	210,000	442,746	232,746	110.8%	$200,000 donation from a wealthy person
In-kind contributions	320,000	154,591	(165,409)	-51.7%	Loss of donated space at XYZ site
Total revenue and support	10,730,000	11,132,201	402,201	3.7%	
Expenses:					
Salaries and wages	3,100,000	3,051,939	(48,061)	-1.6%	
Fringe benefits	970,000	935,239	(34,761)	-3.6%	
Contracted services/consultants	263,000	209,738	(53,262)	-20.3%	
Co-funding	1,000	5,222	4,222	422.2%	
Day care provider payments	650,000	754,295	104,295	16.0%	
Energy assistance	2,700,000	3,033,728	333,728	12.4%	
Weatherization	1,400,000	1,513,554	113,554	8.1%	
Food	100,000	163,279	63,279	63.3%	
Insurance	22,000	33,127	11,127	50.6%	
Occupancy	260,000	409,246	149,246	57.4%	Cost related to additional space from building expansion
Supplies	470,000	384,909	(85,091)	-18.1%	
Travel	110,000	114,535	4,535	4.1%	
Other	350,000	160,522	(189,478)	-54.1%	
In-kind	320,000	154,591	(165,409)	-51.7%	Loss of donated space at XYZ site
Total expenses	10,716,000	10,923,924	207,924	1.9%	
Change in net assets	14,000	208,277	194,277	1387.7%	

This report should be prepared on an agency-wide basis and by individual programs.

Monthly Grant Status Report

Following is an example of how an organization can monitor its progress in spending grants. The purpose of this chart is to show the percentage of grant dollars expended compared to the percentage of the award period that has passed.

Figure 11 – Grant Status Report

September 30, 2015

NOTE: Organization has a December 31, 2015 year-end.

	Grant Period	Grant Award	Spent to Date	Percent of Award Period Completed	Percent of Grant Spent
LIHEAP	1/1/15 - 12/31/15	3,500,000	3,200,000	75%	91%
Weatherization	4/1/15 - 3/31/16	1,200,000	325,000	50%	27%
Section 8	1/1/15 - 12/31/15	800,000	600,000	75%	75%
Head Start	11/1/14 - 10/31/15	2,500,000	1,800,000	92%	72%
WIA	7/1/15 - 6/30/16	200,000	100,000	25%	50%

In some cases, grants may expend funds at different rates during the award period. Note that on this chart, the Weatherization program has spent 27% of the grant but 50% of the grant year has passed. This might be appropriate or it might be a warning that the grant is being spent too slowly.

If it appears that a grant will be over or under-spent, the organization will have to take action to adjust the grant's expenditures. The sooner management and the Board become aware of any problems, the faster they can correct it.

Financial Dashboards

Dashboard reports are an easy way to quickly determine if an organization is meeting its objectives. Dashboards may be built into your accounting software. If so, these should be customized for your goals so they provide you with the information you need. Often, these are color coded to show green as achieving objectives, red as falling short, and yellow as warning that the item should be monitored.

Additionally, an organization could place the individual dashboard amounts in a table or graph to show the progress on these goals over time.

A chart such as this can be a quick and easy way to monitor ratios.

Figure 12 – Sample Dashboard

Financial Dashboard
June 30, 2014

Measure	Target	6 months ago	Now	Description
Current Ratio (Current Assets divided by Current Liabilities)	1.00 and above	1.16	1.06	Ability to pay off current obligations with current assets
Pay-Off Ratio (cash + a/r)/Accts Payable)	3.00 and above	2.59	2.82	Number of times existing cash balance can pay off existing accounts payable balance
Average Day Cash On Hand (cash & equivalents/avg exp per day	15-20 days	18.33	20.00	Number of days cash is on hand to pay average daily expenses
Average Days in Accounts Receivable (Accts rev/avg revenue per day)	20-30 days	14.42	31.49	Number of days cash is tied up in accounts receivable
Average days in Accounts Payable (accts payable/Avg exp's per day)	15-20 days	19.00	19.00	Number of days it takes to pay vendors
Debt to Net Assets Ratio (Total Liab/Total Net Assets)	100% and below	67%	75%	Determines how leveraged the organization is
Unrestricted Net Assets Reserve (Unrestricted Net Assets/Avg total expenses per month	2.00 and above	1.11	0.90	Measures the long-term sustainability of the organization
Revenue to Expense (total rev/total exp)	100%	99%	101%	Measures if the organization was profitable or not
Administrative Exp's to total Exp's (Admin/total exp)	10% and below	8%	8%	Computes the percentage of expenses that are paid for management activities vs. program activities

You could also graph ratios over time. Here are some examples that show annual of ratios calculated at fiscal year-ends. This data could also be compared monthly, but year-end balances give a more accurate picture of change over time because they are calculated at the same point in time each year.

Figure 13 – Current Ratio

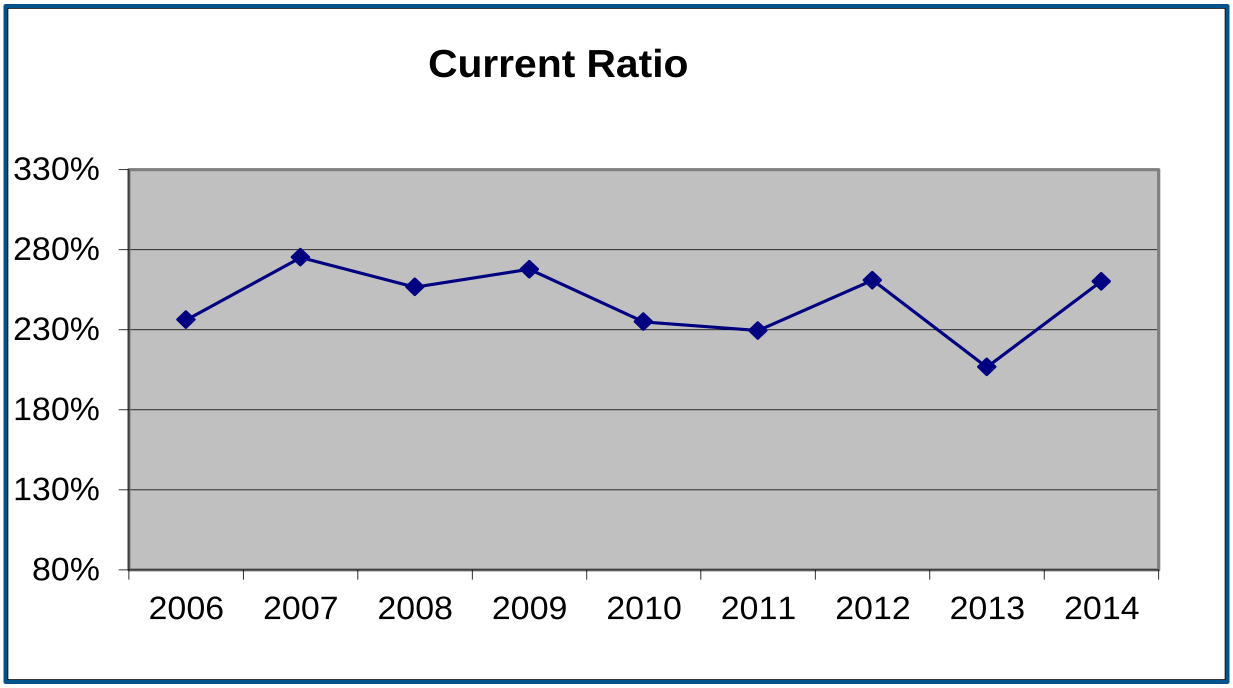
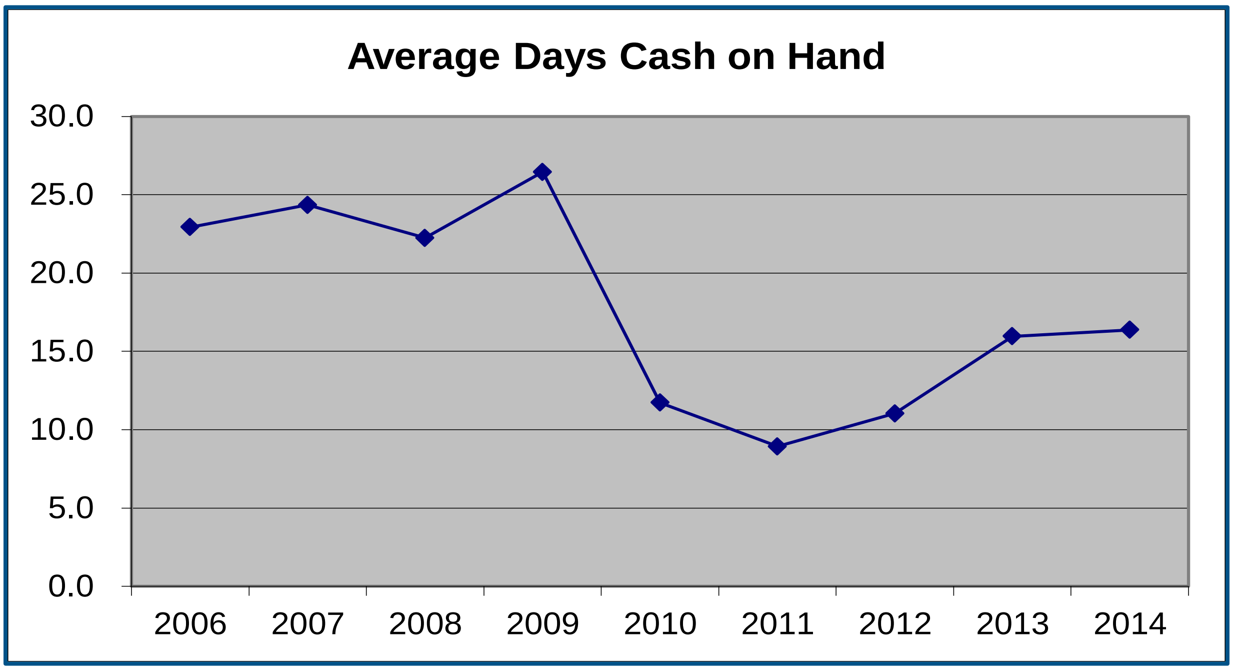


Figure 14 – Average Days Cash on Hand



The current ratio, as previously discussed, shows the ability to pay current obligations with current assets. The Average Days Cash on Hand shows the number of days the cash balance can pay average daily liabilities.

Other ratios you might find useful include:

- Average cost per Head Start child, client or homes weatherized
- Average cost per meal for Head Start children or senior programs
- Average cost to transport a child or client

These ratios are program-based and could provide information to help you manage specific costs.

Summary and Next Steps

The Executive Director's responsibilities in overseeing the financial function of an organization are not just about numbers. They are about ensuring that internal controls are in place and making sure the CFO and program directors are performing their roles. Fulfilling these responsibilities is easiest when the Executive Director surrounds themselves with competent individuals.

The Executive Director/CEO must take responsibility for learning how to read financial statements to know when and how to react appropriately. The CEO cannot delegate all fiscal management to the CFO. He or she must receive appropriate training in order to be able to exercise leadership in fiscal as well as programmatic areas of the organization.

Financial information comes in many formats but it is important for organizational leaders, including Board members, to understand and interpret the basic financial statements: the statements of financial position, financial activities and cash flows. Beyond that, each organization must develop financial information formats that will support decision-making to to succeed as a business and meet Agency goals.

Appendix 1 - Executive Director/Chief Executive Fiscal Checklist

The purpose of an Executive Director/CEO fiscal checklist is to provide oversight of the fiscal function. The following are examples of daily, monthly and annual tasks that will help the Executive Director/CEO carry out this responsibility. Each Executive Director/CEO should develop a list of tasks that meets his or needs as well as those of the Board of Directors and Agency as a whole.

Daily/Ongoing:

- ☐ Sign checks or review and approve check registers if signed electronically
- ☐ Approve purchase orders according to CAP policy.
- ☐ Engage in on-going, informal discussions with CFO and program directors.

Monthly:

- ☐ Perform an on-line review of bank statement and any unusual items. This is an effective internal control set that is more important for small organizations in which the Finance Director is responsible for transaction processing.

- ☐ Review monthly financial statement provided by CFO. Look for:
  - Does the balance sheet balance?
  - Do you have unfunded liabilities such as leave accrual
  - What is the balance of Unrestricted Net Assets? How are they funded? If the total is made up mostly of property and equipment, they aren't liquid and can't be used to meet current obligations.
  - Are revenue and expenses for the month and year-to-date reasonable?

- ☐ Review budget to actual reports by program
  - Are any programs overspent considering where they are in the grant year?
  - Are any programs underspent considering where they are in the grant year?
  - How are your supporting programs that cannot pay their fair share of administrative cost?
  - Review cost per result for each program. Examples:
    - Transportation cost per child
    - Average cost to weatherize a home
    - Average meal cost for Head Start and/or senior programs

- ☐ Review organization wide budget to actual report.
    - Look for unexpected variations.

- ☐ Review credit card statements

- ☐ Review board packet.

- ☐ Meet with the Board-level Finance Committee to discuss current results and fiscal forecasts.

Annually:

- ☐ Meet with auditors at the beginning and end of the audit.
    - Entrance conference – ask about their timing, who will be on-site, and any issues or concerns they have.
    - Closing conference – ask about their experiences working with Agency staff, any unresolved questions or issues, and when they expect to issue their report.

- ☐ Oversee the development of the annual organization wide budget.

- ☐ Review the audit report.

- ☐ Evaluate the personnel policy manual for documentation of changes during the year.

- ☐ Evaluate the financial procedure manual for documentation of changes during the year.

Helping People. Changing Lives.

community Action PARTNERSHIP

AMERICA'S POVERTY FIGHTING NETWORK

Community Action Partnership
1140 Connecticut Avenue, NW, Suite 1210
Washington, DC 20036

202.265.7546 | fax 202.265.5048
www.communityactionpartnership.com