



COMMUNIQUE

A sustaining resource to the not-for-profit community

September 2011

Your First look at Our New Resource for Board Members

This month's Communiqué is a special preview of *On Board*, a newsletter focused exclusively on issues relevant to board members. The following is just a sample of what's to come – future issues will include articles about matters crucial to nonprofit leaders, written by our JJCo team, consultants, investment advisors, attorneys and marketing experts in working with the not-for-profit community.

To make sure that your board members benefit from this valuable new resource, please encourage them to sign up by emailing us at boards@jjco.com. Feel free to contact Courtney Price at courtney@jjco.com, or (206) 628-8990 if you have any questions.

Speed Reading Financial Statements for Board Members

By Howard Donkin, CPA

As a board member, you have a fiduciary duty to uphold the financial health of the not-for-profit organization you serve, which often involves reading and reviewing financial statements, as well as asking questions about their contents.

We often hear from board members who are intimidated by this responsibility, which is understandable. Even people with a financial background may find not-for-profit financials quite different from those prepared by for-profit entities. That's why we have



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Jacobson Jarvis is a full-service certified public accounting firm focused exclusively on the not-for-profit community. From audit and tax services, to assistance in addressing operational challenges or selecting new information technology, Jacobson Jarvis offers clients the expertise required to reach the right decision for their organizations.

compiled a handy checklist to help guide you to the most pertinent questions that you should be asking the next time you are reviewing your organization's financial statements.

Statement of Financial Position

The Statement of Financial Position summarizes the assets and liabilities of an organization at any point in time. You should keep your eyes on the following:

- **Liquidity.** This refers to the organization's ability to tap into the cash required to pay immediate and routine obligations. Is the Current Ratio (current assets divided by current liabilities) greater than 1? Are you meeting your financial reserve targets?
- **Trends.** Do the balances reveal any unusual or unexpected year-to-year (or month-to-month) trends? Significant growth or decreases may affect your operating budget.
- **Debt activity.** Is debt activity consistent with expectations? Do you have access to capital to cover emergencies? A rapid growth in debt might foretell an impending financial crisis.
- **Unrestricted Net Assets.** Do you have enough unrestricted liquid assets and/or access to credit to cover an economic downturn or crisis? The answer will help you plan ahead for any financial issues in the future.

Statement of Activities

This statement shows the results of an organization's revenue and expenses over a period of time, such as your fiscal year. Here are some critical areas to monitor:

- **Budget versus actual.** How is your organization doing with respect to your budget? Be sure to ask how your management addressing any large variances.
- **Trends.** Are any budgeted expenses rising more rapidly than their revenue or support sources? Longer-term trends may signal a need for increased attention to fund development or tighter expense management.
- **Revenue and support.** Heavy reliance on a single source can be risky. Does your organization depend too much on a single revenue or support source? Do you have a contingency plan to address an unexpected drop in income?
- **The bottom line.** Is the bottom line consistent with your expectations, both overall and by restricted net asset class?

Statement of Cash Flows

The Statement of Cash Flows helps illustrate the actual flow of cash into and out of the organization. We recommend that you begin by looking at these items:

- **Cash flow.** Is the cash flow from your operations positive? If not, that means you are relying on investments or debt to fund day-to-day activities.
- **Trends.** As with other statements, it is important to see how cash activity stacks up to prior time periods. How does your overall cash activity compare to the prior year? Are there any unexpected variances?
- **The bottom line.** Are you using more cash than you're generating? Is this expected? Organizations that continually run in a deficit position are likely to fail.
- **Days operating cash.** Do you have at least 60 days' operating cash on hand?

Footnotes and Opinion

In addition to the above statements, your review of the financials should include any attachments, footnotes, and, if audited, the auditor's opinion. These sections can contain important narrative information about your organization. In particular:

- **Opinion.** Did you receive a "clean" audit opinion? Were there any significant deficiencies or material weaknesses?
- **Footnotes.** Does anything in the footnotes alter your perception of the organization's financial health?
- **Attachments.** Are you meeting grant, loan, and other legal covenants and requirements?

Donor's Perspective

Complete your review by considering how your organization's financial statements would be viewed through the eyes of a donor. Do they tell a compelling story of your organization's accomplishments? Today, donors are increasingly relying on published financials to make contribution decisions. After reading your financial statements, including the Statement of Functional Expenses, would they feel confident that their donations will be handled responsibly and accomplishing your mission?

Reviewing financial statements may seem like a daunting task, but armed with our checklist, you will speed to the right set of questions, be better prepared to perform your financial management duties and, likewise, help your organization carry out its mission more effectively.

If you would like more information, Jacobson Jarvis would be glad to provide complimentary copies of our booklet "What Board Members Need to Know About Not-for-Profit Finance and Accounting" to your organization. Just email boards@jjco.com with your name, your organization, postal mailing address and number of books you need.

About the Author

Howard Donkin, CPA has more than 20 years experience in serving the not-for-profit community. Among his areas of expertise are complex tax issues, state and local tax issues, voluntary compliance issues, strategic planning, investment policies and organizational tax planning.

Howard is a member of the American Institute of Certified Public Accountants (AICPA) and the Washington Society of Certified Public Accountants (WSCPA), where he has served as Chairman of the Not-for-Profit Committee and Chair of the Tax Sub-Committee. He volunteers his time to the AICPA Exempt Organization Technical Resource Panel to study tax issues for not-for-profit clients on a national level, chairs the finance committee of the Bellevue Schools Foundation, is a member of the Alliance for Nonprofits' Public Policy Forum and a past Chairman of the Bellevue Arts Commission. Howard has written several articles on not-for-profit tax issues and is on the Advisory Board of The Exempt Organization Tax Review.