



First 5 Kings County
Children and Families Commission

Capacity Building Toolkit

Module 5 - Financial Management

Prepared by:



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Acknowledgements

In September 2006, First 5 Kings County Children and Families Commission funded a capacity building initiative for its Family Resource Center (FRC) grantees. The objective of the capacity building initiative is to:

- 1) Assess the capacity building needs of service providers identified by First 5 Kings County and create a plan to address those needs, thereby strengthening their performance and accountability, and
- 2) Develop tools and deliver capacity building services to Family Resource Centers (FRCs) in order to strengthen their programs, practices and sustainability.

The Commission is funding a hands-on approach to working with staff, volunteers, board and/or other persons responsible for achieving results outlined in the individual organizational Capacity Building Plans developed for each FRC. Social Entrepreneurs, Inc. (SEI) is compiling and developing a variety of materials that will be shared with the FRCs through a combination of targeted coaching and technical assistance, including

- Leadership workshops
- Education and training
- Direct technical one on one assistance
- Toolkits, and
- Follow up

First 5 Kings County would like to thank the board, staff and leadership within each of the FRCs for the time, energy and commitment shown to participating in the activities that have led to this point. We recognize that each FRC's primary focus is on delivering needed services and supports to the children and families of Kings County. The time required to conduct the organizational self-assessments, review reports and capacity building plan, and provide feedback and recommendations to the SEI team is time away from serving those families.

We appreciate the commitment shown by the FRCs. The Commission believes that in the long-run, building the capacity of individual FRCs will lead to their increased sustainability; which will ultimately lead to more families and children accessing the critical services and supports provided by the FRCs.

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MODULE 5 – FINANCIAL MANAGEMENT

Module 5: Introduction and Overview of the Financial Management Toolkit



The purpose of this Toolkit is to provide both the board and staff of FRCs with the most essential components of a solid organizational framework for tracking and managing financial resources. The information provided in this module focuses on the infrastructure needed to manage financial resources that you have already acquired. A separate Grant Writing and Sustainability module is available that shows how to attract more financial resources in order to support your work with families and communities.

The finance function serves three overarching roles that are critical to the success and sustainability of organizations:

1. **Optimal allocation and use** of financial resources through proper planning, spending, tracking, reporting and management of finances.
2. **Accountability** over funds by complete and accurate accounting, financial reporting and compliance with applicable laws and standards (including requirements of diverse sources of funding).
3. **Supporting the organization** in achieving its strategic goals and objectives. An effective finance function does more than control the flow of funds and “keep score.” It also must be an integral partner with all other areas of the organization, serving as an internal consultant that adds value through financial planning, analysis, information, and resource development for programs and projects that promote positive change for children and families.

Why are these roles important? Financial resources are, in many ways, the lifeblood of an organization. They provide the ability to hire staff and to obtain the facilities, equipment, supplies and other items necessary to serve families. In short, the type, amount and quality of services that can be provided to families are directly tied to an organization’s ability to manage its finances. Furthermore, a strong financial management capability can actually help an organization to sustain its existing funding sources and pursue new sources of funding by showing why more financial resources are needed, producing clear and compelling grant budgets that justify funding requests, and increasing credibility with funders so that funders are confident their donations will be used wisely.

A Holistic Model for Effective Financial Management

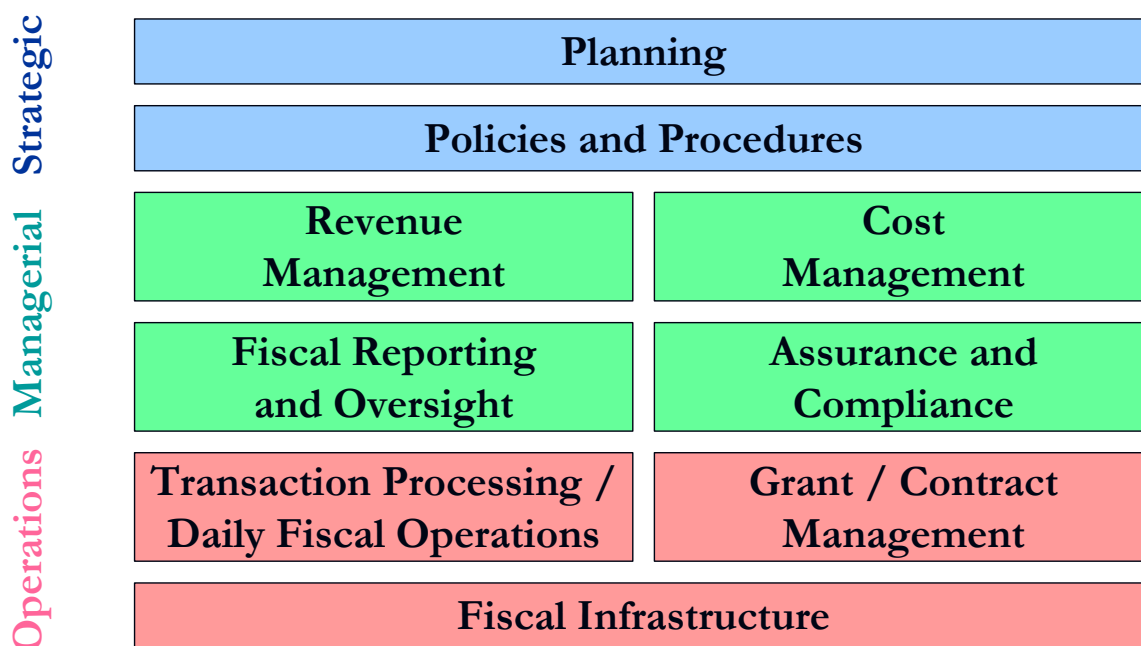
To put the information in this toolkit into proper context, it is necessary to understand that a complete, high-performing financial management capability for an organization works at three levels: strategic, managerial and operations (see Figure 1).

- At the **Strategic** level, long-range or strategic plans greatly influence finances by defining goals and priorities that will require resource investments and therefore are the

main drivers for setting annual budgets. Policies and procedures set the ground rules for all types of financial matters, including the respective fiscal duties of board and staff. In short, good strategic governance is an integral part of financial management.

- At the **Managerial** level are vital analysis, decision-making and management functions such as deciding which sources of funding to pursue and then pursuing them, deciding which expenditures to approve, analyzing financial performance and making course-corrections as needed, and ensuring that the organization complies with all legal and regulatory requirements.
- The **Operations** level provides the infrastructure (accounting software, files, etc.) and day-to-day accounting activities (billing, accounts payable, payroll, general ledger, fund tracking, etc.) that support the critical functions at the Strategic and Managerial levels.

Figure 1: Key Components of Financial Management



Guidelines for long-range planning are contained in Module 1 – Strategic Planning. Module 4 – Grant Writing and Sustainability, provides valuable information about revenue or income enhancement that directly relates to the revenue management element of the above diagram. This module, Module 5 – Financial Management, covers many of the remaining components with an emphasis on fiscal policies and procedures, financial planning in the form of budgeting and capital improvement planning, financial reporting, and essential aspects of the underlying fiscal infrastructure.

Financial Management Toolkit Components and Organization

The components of this toolkit were selected based on the organizational self-assessments completed by the Kings County Family Resource Centers (FRCs) in October 2006 as part of the Capacity Building Project funded through First 5 Kings County. This handbook is not intended to provide an exhaustive list of resources or instructions related to financial management, but rather provide tools and guidance for addressing specific areas of need and concern identified by individual FRCs. Links to additional resources or websites have been included throughout so that FRC staff and board members can obtain additional information and guidance as needed.

The toolkit is organized into five sections, plus appendices.

- **Accounting Concepts and Structure** explains key terms and concepts that are used throughout the rest of the toolkit, and shows how to structure your accounting systems in a way that enhances (rather than inhibits) fiscal planning, reporting and accountability.
- **Fiscal Policies and Procedures** provides a complete template for a financial policy and procedure manual, along with a recommended approach for developing and implementing fiscal policies and procedures.
- **Roles and Responsibilities for Financial Management** summarizes the fiscal management duties of the board and staff, provides a way for you to easily see how financial policy and procedures affect the people in your organization.
- **Budgeting and Financial Planning** contains guidelines for preparing both annual operating budgets and long-range capital improvement budgets.
- **Financial Reporting** provides specific recommendations and samples of useful financial reports to provide at different levels of the organization.

Each section in the manual begins with a brief introduction that explains the topics covered and lists any worksheets or tools that are discussed in the section. All tools and templates referenced in the section are also provided electronically on a companion compact disk (CD). Files located on a CD will be noted with an icon of a CD.



Whenever a new tool or worksheet is presented a “key” symbol and text box will be included. The box will contain “key” suggestions about who, when and how to use the tool.



5.1 Accounting Concepts and Structure

This section explains important accounting concepts and terms that must be understood in order to properly utilize the rest of the toolkit. It also contains guidelines for setting up the central accounting structure – the chart of accounts and other means of codifying financial transactions – so that the accounting structure is able to meet the organization’s needs for financial planning, analysis, reporting, and accountability to funding sources.



Tools included in this section are also available on the companion CD:

- Unified Chart of Accounts
- Sample Coding Structure for QuickBooks

Additional information can be found by using the hypertext links to external websites or referring to the appendices in this toolkit.

Generally Accepted Accounting Principles

Generally accepted accounting principles, or GAAP for short, are the rules and concepts that guide how all financial transactions should be recorded in the accounting system and reflected on financial statements or reports. GAAP for nonprofit organizations are established by the Financial Accounting Standards Board (FASB) in the U.S. These accounting rules are contained in the Statements of Financial Accounting Standards and related Interpretations and Technical Bulletins that are issued by the FASB. To date, more than 150 Statements of Financial Accounting Standards and 50 Interpretations have been published. Accounting rules for public agencies are established by the Governmental Accounting Standards Board (GASB), a body serving the same basic roles as the FASB but focused specifically on governmental accounting.



Compliance with GAAP is important for many reasons, including:

- Adhering to GAAP allows financial information to be consistent and reliable so that it can be used with confidence for analysis and decision-making;
- Many funding sources require financial information to be provided that complies with GAAP, so failure to understand and accurately apply these accounting rules can result in a loss of funding; and
- Financial audits conducted by independent auditors require auditors to determine whether an organization’s financial statements are fairly presented in accordance to GAAP, so a “clean” (unqualified) audit opinion cannot be obtained without fully adhering to GAAP.

It is not necessary for all board and staff members to understand the intricacies of GAAP. What is essential is that each agency has personnel, either on staff or by contracting with qualified accountants, that do fully understand GAAP and apply these accounting rules diligently in recording all of the agency’s financial transactions and in preparing fiscal reports.

Other Resources

Financial Accounting Standards Board

www.fasb.org

The website for the FASB is the most authoritative source of information on all standards and pronouncements that collectively make up the body of generally accepted accounting principles. Personnel who need to understand GAAP in detail should use this site. A link is also available to the related information from the Governmental Accounting Standards Board.

Essential Finance Terms and Concepts

Although it is beyond the scope of this toolkit to provide a comprehensive explanation of financial management concepts, there are several terms and concepts that are essential to understand in order to use the toolkit. These key concepts are organized into categories as shown below.

Basis of Accounting

There are two basic approaches to accounting for nonprofit organizations: cash-basis accounting and accrual-basis accounting.

- In **cash-basis** accounting, income is recorded in the accounting system only when cash is received and deposited, and expenses are recorded when bills are paid.
- Under **accrual-basis** accounting, income is recorded in the month in which it is earned (whether or not the cash is received during that month) and expenses are recorded in the month in which the expense was incurred rather than when it is paid.

The differences in these approaches can be illustrated by three simple examples.

Example #1 – Income: A grant for \$10,000 to pay for a Children’s Summit is approved by a foundation and a signed grant agreement is received. The Children’s Summit is held in June, but the check from the foundation is not received until August. Under cash-basis accounting, nothing is recorded until August, when income of \$10,000 is recorded when the check is received and deposited. Under accrual-basis accounting, income of \$10,000 would be recorded in June when it was earned by holding the Children’s Summit and a corresponding “grant receivable” would be recorded. Then, when the check is received in August, the grant receivable would be cleared.

Example #2 – Expense: Supplies worth \$200 are ordered on credit and received in March. The credit card balance is paid in May. Under cash-basis accounting, the \$200 expense is recorded in May when the check is written to pay for the supplies. Under accrual-basis accounting, the \$200 expense is recorded in March and a corresponding payable (amount due) is recorded, which is cleared in May when the payment is made.

Example #3 – Prepayment: A bill for \$2,400, covering insurance for the next calendar year, is paid in December. Under cash-basis accounting, the entire \$2,400 amount is recorded as an expense in December when the payment is made. Under accrual-basis accounting, a prepaid expense is recorded in December when the payment is made, and then 1/12 of the premium (\$200 per month) is recorded as an expense in each month covered by the insurance policy.

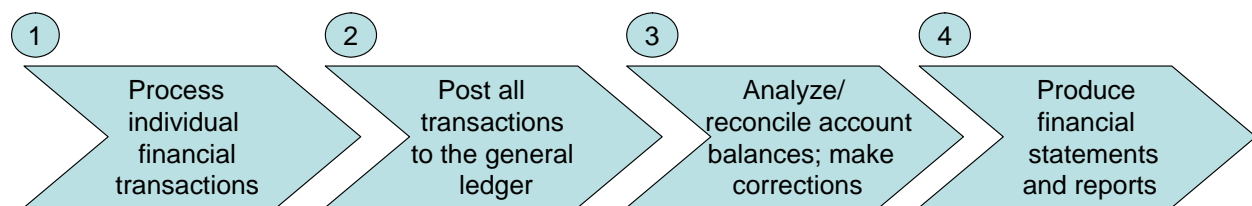
Every organization is required to choose one of these approaches and apply it consistently. Accrual-basis accounting is used much more frequently than cash-basis accounting because it

provides more complete and meaningful management information – amounts due from others (receivables) and due to others (liabilities) are clearly visible on the financial statements, and income and expenses are matched directly to the accounting period in which income is earned and expenses are incurred.

The Accounting Cycle

A “fiscal year” is the twelve-month period for which an organization tracks and reports its financial activity. Each organization can choose what fiscal year it wants to use. Most nonprofit organizations either use a calendar year (fiscal year ending on December 31), or adopt a fiscal year that is aligned with the fiscal year of major regulatory and/or funding agencies affecting the organization (for example, a fiscal year ending on June 30). Each fiscal year is then divided into “accounting periods” for purposes of performing specific procedures to produce accurate financial statements. Most organizations use months as the accounting period, but some have quarterly accounting periods and a few use other approaches such as 13 accounting periods in a year that are each four weeks long.

The “accounting cycle” refers to the whole collection of accounting activities that occur during an accounting period. A typical accounting cycle is illustrated in the following diagram.



Each of the terms and concepts contained in the diagram are explained in this toolkit. The main point for now is to understand that a logical, systematic sequence of activities must occur each accounting period in order to provide complete and accurate financial information.

Classifications for Financial Transactions

There are five categories within which all financial transactions are classified.

1. **Assets:** The items of economic value owned by the organization such as cash, investments, receivables (the right to receive money in the future), property, equipment and other tangible and intangible resources. “Current assets” are cash and other assets that will be converted to cash or fully utilized within one year. “Long-term assets” are expected to be held for more than one year or are not easily converted into cash.
2. **Liabilities:** The financial obligations, debts and claims owed by the organization to other people and organizations. “Current liabilities” are debts that are due to be paid within one year such as accounts payable to vendors, short-term loans due and payroll tax payments. “Long-term liabilities” are debts such as mortgages that involve obligations longer than one year.
3. **Net Assets:** The net of assets over liabilities, in other words, total assets minus total liabilities. Three classes of net assets must be separately tracked by nonprofit organizations – unrestricted (available for any use at any time), temporarily restricted (use is restricted by conditions imposed by the donor that either expire in time or can be met by the organization’s actions), and permanently restricted (use is permanently

restricted by donor-imposed conditions, such as endowment funds where initial donation amounts can never be spent, just the investment income earned on those amounts).

4. **Revenues:** Also called income, revenues are the money or legal right to receive money that are provided to the organization, such as through donations and grants, or earned by the organization by providing goods and services.
5. **Expenses:** The costs of conducting revenue-producing activities and supporting the general operations of the organization.

Assets, liabilities and net assets are often collectively referred to as “balance sheet” accounts because they are grouped together on a financial statement called a Statement of Financial Position that was known for many years as a balance sheet.

Components of an Accounting System

An accounting system is comprised of accounting records – checkbooks, journals, ledgers, files and so on, either in paper or electronic form – together with the processes and procedures that define how all accounting-related activities are to be performed. The goals of the accounting system are to ensure that financial transactions are properly entered into the accounting records and that timely, accurate financial reports are produced for management needs.

The main components of an accounting system are:

- The chart of accounts, which is the framework by which all financial transactions are classified, recorded and reported. Guidelines for creating an effective chart of accounts are provided later in this toolkit.
- The general ledger, which lists the individual transactions for each account in the chart of accounts and shows the current balance for each account.
- Journals or sub-ledgers, which provide more detailed information to support the balance of individual accounts in the general ledger. For example, a fixed assets ledger would contain a detailed, itemized list of all property and equipment currently owned by the organization
- Financial policies and procedures, which define how financial transactions must be processed and how the fiscal duties of the organization are to be fulfilled.



Accounting software programs like QuickBooks are able to automate many of the elements of a complete accounting system; for example, the general ledger and all supporting journals are stored within the software.

Accounting Functions

Accounting work is organized into functions that focus on a particular type of transaction or activity. It is useful to understand the basic nature of the various accounting functions, as policies and procedures need to be adopted to govern how each function is performed. The accounting functions usually found in human service organizations are listed below.

- **Cash.** Cash functions involve accepting cash and cash equivalents and managing cash on hand. Sub-functions include cash receipts, managing petty cash funds, investment of cash on hand, and reconciling bank accounts to validate cash balances shown in the accounting records and guard against bank errors.

Purchasing. The purchasing function covers the selection, approval and purchase of goods and services used by an organization. It also ensures that goods and services that are ordered are actually received, and that what is received matches what was ordered.

Accounts payable. The accounts payable function is responsible for paying bills owed by an organization and includes review of bills, approval for payment, preparing checks, getting checks signed and submitting payments to vendors.

Billing. For organizations that charge for goods and/or services, the billing function ensures that recipients of goods and services are charged the proper amount based on the guidelines in the financial policies and procedures (which may involve a sliding fee scale based on ability to pay) and charges are properly recorded in the accounting system.

Accounts receivable. The accounts receivable function tracks amounts owed to an organization and follows up to ensure that all amounts are collected or adjustments are made to the accounting records when necessary for receivables that can not be collected. This covers receivables from all sources and can include receivables from grants, renters of property and equipment, etc. in addition to amounts due from clients.

Payroll. The payroll function handles time reporting, determining amounts due to each employee, preparing and issuing employee pay checks, computing tax withholdings and submitting tax deposits related to payroll, and preparing payroll-related documents such as quarterly and annual payroll tax returns to state and federal authorities and annual W-2 statements for employees. The financial elements of employee benefits administration are also usually grouped into the payroll function, handling issues such as payroll deductions for employer-sponsored health insurance and retirement plan contributions.

Fixed assets. The fixed assets function tracks all property, equipment, furniture, fixtures, vehicles and other such durable physical assets so that all fixed assets can be accounted for, preventing loss. For organizations using accrual-basis accounting, this function also computes and records depreciation expenses related to fixed assets.

Inventory. For organizations that keep goods and supplies on hand for delivery to clients or use with clients, the inventory function tracks the amount of each item on hand, ensures that items taken out of inventory are properly recorded, and works to prevent loss. It is not common for Family Resource Centers to have an inventory function but it can occur when special materials are kept on hand, such as medical supplies or kindergarten readiness kits.

General ledger. The general ledger function is responsible for maintaining the general ledger – the central “books” of the organization – by reviewing and reconciling account balances as well as preparing and posting (recording) adjustments to the account balances, called “journal entries”, as needed to comply with generally accepted accounting principles.

Cost accounting. Cost accounting refers to specialized accounting methods to determine the cost of goods and services provided by an organization. In human service agencies, costs must often be assigned to various programs and services or designated as administrative costs. The cost of resources shared by multiple programs may also be allocated across those programs. The cost accounting function determines how these cost assignments and allocations are performed, and ensures they are done properly.

Fund administration. The fund administration function handles the recording of grants, gifts and bequests, issues acknowledgements of donations, ensures compliance with donor-imposed restrictions, and prepares and submits reports and other documentation according to donor requirements.

Financial reporting. The reporting function prepares financial statements and other financially-oriented management reports, and usually also handles regulatory reporting like preparing the federal and state annual information returns (IRS Form 990 and California Franchise Tax Board Form 199). Toolkit Module 2 – Governance Design contains a checklist of reporting requirements.

It should be emphasized that the areas listed above are accounting functions, covering the nuts-and-bolts accounting activities for an organization, but do not represent all of the finance functions for an organization. As explained elsewhere in this toolkit, activities such as strategic planning and budgeting and other forms of financial planning are also essential elements of a complete and effective financial management capability.

Internal Controls

Internal controls are policies, procedures and systems designed to prevent the deliberate or misguided use of funds for unauthorized purposes. Internal controls are necessary to prevent avoidable financial losses, reduce legal risks, and maintain public credibility that the organization is a good steward of the resources that are entrusted to it.

Internal controls center on the following issues:

- **Duties and authority.** Internal controls must provide clarity about “who does what,” including who is authorized to approve different types of financial transactions and any limits on that authority. The objective is to give people enough authority to perform their jobs efficiently, without granting excessive authority and while maintaining appropriate checks and balances.
- **Segregation of duties.** A key principle of internal controls is the segregation of duties so that no financial process is handled by a single person from beginning to end. For example, it would be unacceptable to have one person be responsible for preparing client billings, accepting payments, posting payments to the accounting system and maintaining accounts receivable records because it would be relatively easy for that person to take payments (especially cash payments) for their personal use.
- **Procedures.** Procedures define the steps to be taken, approvals needed, and level of documentation required in order to ensure the integrity of fiscal activities.
- **Physical security.** Physical controls such as tagging of fixed assets and storage of items in locked cabinets are an important aspect of internal controls.
- **Oversight.** Independent reviews and scrutiny of accounting information can be designed to detect problems as early as possible.

The board and staff must work as a team to establish and maintain an effective system of internal controls. Internal controls are embodied in the fiscal policies and procedures and will be covered in more depth in the next section of the toolkit.

Other Resources

Excellent free resources are available on the Internet from the websites listed below.

Management Help's Guide to Nonprofit Financial Management

http://www.managementhelp.org/finance/np_fnce/np_fnce.htm

This website consolidates information on many important aspects of nonprofit financial management and is a terrific “hub” to obtain guidance on a broad range of fiscal issues.

Nonprofit Good Practice Guide

<http://www.npgoodpractice.org>

Click on the Terminology link to access an extensive list of definitions for terms used in nonprofit finance and accounting, in addition to various other nonprofit-related terms.

Alliance for Nonprofit Management

http://www.allianceonline.org/FAQ/financial_management

The Alliance's website provides concise answers to many frequently asked questions related to financial management and other aspects of nonprofit management.

IKNOW: Interactive Knowledge for Nonprofit Organizations

www.iknow.org

This website is another strong hub for information on a broad range of nonprofit management topics. Click on the Financial Management link at the top of the home page to access information on many essential aspects of fiscal management.

Michigan Nonprofit Association: Internal Controls Article

<http://www.mnaonline.org/risk02.asp>

This article gives a more complete description of what internal controls are and why they are important.

Government Finance Officers Association Recommended Practices

<http://www.gfoa.org/services/rp/>

This site is specifically for public (governmental) agencies and provides central access to explanations and specific recommendations on a host of financial management issues.

Chart of Accounts

The “chart of accounts” defines how financial transactions are classified, recorded and reported. Every financial transaction must be assigned to an account in the chart of accounts in order to be posted to the accounting system.

The design of the chart of accounts – the list of accounts and how they are organized – is one of the most important elements of a good accounting system, and yet often does not receive the attention it deserves. Consider the following items that are directly affected by how the chart of accounts is structured:

- ✓ The ability to produce insightful financial reports that provide precise information for each type of asset, liability, net asset, revenue and expense without unnecessary detail and clutter.
- ✓ The ability to quickly and easily produce financial information needed for grant proposals and reports to funding sources.
- ✓ The ability to prepare accurate federal and state annual information returns.

- ✓ The ability for internal controls to work well because accounting information is organized in a way that supports the internal controls.

What does a good chart of accounts look like? A well-designed chart of accounts will have all of the following characteristics:

1. Each account has a purpose – it either represents a specific type of asset, liability, net asset, revenue or expense that is important to track for management purposes or that must be tracked separately for donor or regulatory reporting purposes.
2. Each account is named clearly and is as distinct as possible from the other accounts so that when transactions need to be coded to accounts, it is relatively obvious which account should be used (as opposed to account descriptions that are ambiguous or overlap each other).
3. The chart of accounts as a whole has enough detail to produce useful financial reports for all types of management purposes (program and department level management up through overall agency management) without being so detailed that important financial “stories” get lost in the minutia on reports.
4. It anticipates future growth and organizational changes without adding unnecessary detail in the meantime. As a simple example, assume the agency’s main program produces and issues many copies of a parent education guide. Rather than having an expense account with a specific name like “Parent Guide Expense” and then creating another account for the next program that produces a different publication, a more general account like “In-House Publications Expense” can be used by many programs.



The [Unified Chart of Accounts](#) for nonprofit organizations is provided in Appendix A and is a model for a well-designed chart of accounts. The Unified Chart of Accounts (UCOA) was initially developed as a joint project of the California Association of Nonprofits and the California Society of Certified Public Accountants, and has since expanded nationwide with the support of the National Center for Charitable Statistics and other groups.

The following information about the Unified Chart of Accounts was adapted from the California Association of Nonprofits website:

“The UCOA unifies the reporting requirements of various federal, state and nonprofit entities into one system. This one tool helps nonprofits ‘cross-walk’ all of their financial reporting requirements, including Form 990, into one system. A secondary benefit of the UCOA is that terminology will become increasingly uniform within and between nonprofit



UNIFIED CHART OF ACCOUNTS

Who? The Unified Chart of Accounts is intended for finance staff but can also be useful to executive staff and program managers.

When? Use for new organizations to design the chart of accounts or for established organizations that are considering changes to their existing chart of accounts.

How? For new organizations, start with the Unified Chart of Accounts and edit it to fit the organization’s needs by changing account titles where appropriate to be more meaningful and deleting unnecessary accounts. For established organizations, review the Unified Chart of Accounts to get ideas for changes or additions to your existing chart of accounts.

organizations and funding agencies. The UCOA is designed to allow nonprofits to add as many reporting requirements as necessary and still be able to use one system for reporting. At a minimum the UCOA has been set up to unify the reporting requirements for:

- Federal Form 990 and equivalent state forms
- Generally accepted accounting principles, and particularly Financial Accounting Standards Board (FASB) Statements of Financial Accounting Standards Nos. 116 & 117 on reporting by nonprofit organizations
- The American Institute of CPA's Audit & Accounting Guide for Not for Profit Organizations
- Federal Office of Management and Budget (OMB) Circular A-122 for nonprofit recipients of federal grants
- United Way of America's accounting and budgeting guides
- Standards of Accounting and Financial Reporting for Voluntary Health and Welfare Organizations
- Other nonprofit accounting standards and guides”¹

All of the materials needed to use the Unified Chart of Accounts are available for free. However, a simple (and again, free) license agreement must be submitted in order to use the materials. The license agreement and all of the other information you will need can be found on the websites listed below under the Other Resources heading for this section.

Other Resources

National Center for Charitable Statistics

<http://nccsdataweb.urban.org/FAQ/index.php?category=77>

This page provides free access to the Unified Chart of Accounts (UCOA), including files for loading the UCOA directly into QuickBooks.

California Association of Nonprofits

www.canonprofits.org

Click on the Financial Support link on the left panel of the home page, and then select the Quality Reporting Project option to get more information about the Unified Chart of Accounts and efforts to improve financial tracking and reporting by nonprofit organizations. The license agreement to use the UCOA is also located here.

Setting up the Structure for Program and Fund Reporting

A basic chart of accounts gives you the information to understand your current financial position. However, family services agencies have additional financial information needs that must be met by the accounting system. These needs include the ability to track income and costs separately for each program operated by the agency since programs often have specialized funding sources, the ability to separate program costs from administrative costs, and the need to track expenditures made from each donor-restricted source of funds so that a complete audit trail exists to prove that expenditures are in compliance with the donor's requirements.

¹ Source: California Association of Nonprofits. Retrieved on 3/2/07 from <http://www.canonprofits.org> under Financial Reporting: Quality Improvement Project link.

Two things are necessary in order to meet these additional accounting and financial reporting needs: a way to “code” individual revenue and expense transactions (that is, to attach codes or descriptive labels to financial transactions) that identifies the program/administrative unit(s) and funding source(s) involved, and an ability to generate reports using this additional coding. Fortunately, most accounting software products available today have the necessary features for program and fund accounting – you just need to know how to set up your coding structure properly.



To illustrate a workable approach to setting up your accounting software to support program accounting and tracking of specific funding sources, Appendix B contains a [Sample Coding Structure for QuickBooks](#) with guidelines and examples for organizations using any of the QuickBooks Pro or Premier editions. The sample structure is based on QuickBooks Pro/Premier because this is the software most widely used now by nonprofit organizations. However, the concepts presented in Appendix B can be applied to many other accounting software products.



SAMPLE CODING STRUCTURE FOR QUICKBOOKS

Who? Finance staff at any agency using QuickBooks as their accounting software.

When? Use for organizations setting up QuickBooks for the first time or existing QuickBooks users looking to improve their financial tracking and reporting for individual programs and/or sources of funding.

How? Use the sample coding structure as a guide to set up specific “lists” in QuickBooks that control how financial transactions can be codified and reported.

5.2 Fiscal Policies and Procedures



A cornerstone of good financial management is to have complete, written policies and procedures that define how financial transactions must be processed and how the fiscal duties of the organization are to be fulfilled. Further, it is necessary for those policies and procedures to be understood and followed by everyone in the organization. This section of the toolkit provides guidelines for developing, adopting and maintaining your fiscal policies and procedures. An extensive template with model policies and procedures is also included, which you can customize to your organization's unique circumstances.



Tools associated with this section and provided on the companion CD are:

- Fiscal Policy and Procedure Manual Template
- Sample Fiscal Forms Package

Developing and Adopting Fiscal Policies and Procedures

Creating solid policies and procedures to guide fiscal operations does not have to be overly time consuming, nor does it have to add a lot of bureaucracy to the organization. A simple common sense approach can work very well.



A [Fiscal Policy and Procedure Manual Template](#) is provided in Appendix C to assist with developing fiscal policies and procedures for the first time, or for reviewing your existing policies and procedures to identify opportunities to strengthen them. The template is based on extensive work by Social Entrepreneurs, Inc. (SEI) in assisting nonprofit and public organizations with financial management issues.

A methodical step-by-step approach to developing or revising fiscal policies and procedures is recommended. Seven steps are essential to this process. They are:

1. **Clarify board and staff roles.**
Determine exactly who is going to do what related to finances, ensuring proper separation of duties in the process. Section 5.3 of this toolkit provides more complete information about defining roles and responsibilities related to finances, including a worksheet that can be used to help assign duties.



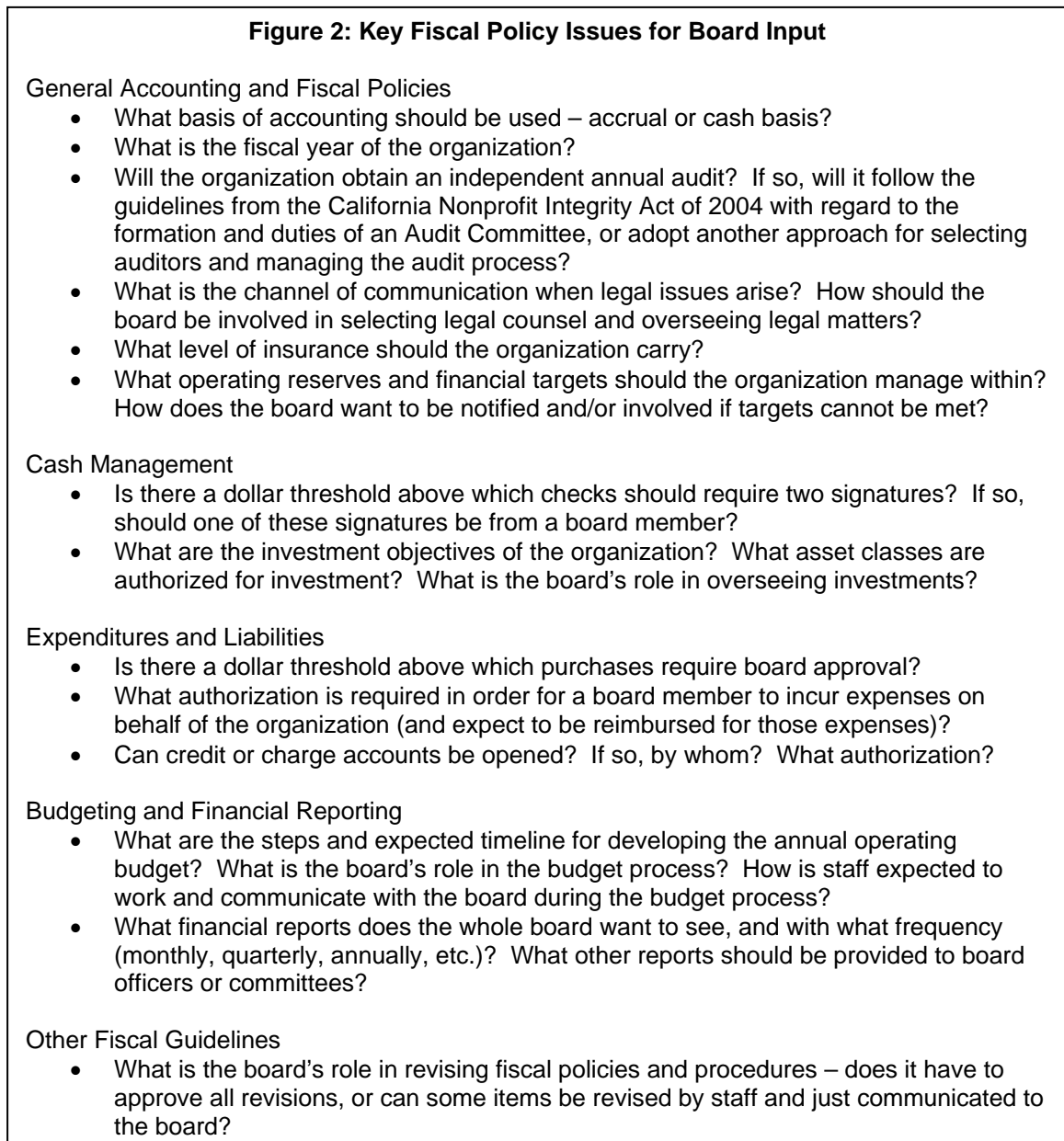
FISCAL POLICY AND PROCEDURE MANUAL TEMPLATE

Who? This template should be used by staff to develop or enhance the organization's fiscal policy and procedure manual. Policies should be approved by the board before being implemented.

When? Use when developing the organization's first fiscal policy and procedure manual, or when revising an existing manual.

How? Adapt the template to your organization by filling in the blanks and editing the document based on your choices on various policy decisions described in the template and also to reflect your specific accounting and financial management procedures.

2. **Get board input on key policy issues.** Board guidance is particularly important for issues such as limits to authority and determining when board approval is required for financial matters. Figure 2 below provides a helpful checklist of key policy issues where board guidance is usually needed. The issues are aligned with the sections of the Fiscal Policy and Procedure Manual Template; see the template for more detailed information and/or examples related to each of these issues.



3. **Draft the fiscal policy and procedure manual.** It is a staff function to take the guidance from steps one and two and, using a tool such as the Fiscal Policy and Procedure Manual Template provided in this toolkit, to develop a complete fiscal policy and procedure manual that fits the organization's needs and preferences.

4. **Obtain internal review of the draft manual.** The policy and procedure manual should be reviewed by the board and by all staff. Opportunities for dialogue about the draft manual should be provided at both the board and staff levels, leading to changes to the manual as needed based on the review process.
5. **Have the board formally adopt the manual.** Formal adoption by the Board of Directors by virtue of a resolution that is recorded in the minutes of a board meeting is important; it certifies that the board understands and approves the final set of policies and procedures.
6. **Align the accounting system with the policies and procedures.** The elements of the accounting system – the chart of accounts, forms, report formats, files and so on – need to be fully aligned with the provisions contained in the fiscal policy and procedure manual. Tools and suggestions for completing this step are contained under the “Implementing the Fiscal Policies and Procedures” heading below.
7. **Communicate to all board and staff.** The fiscal policies and procedures need to be properly communicated to all board and staff members. This does not involve simply issuing copies of the document with a request for people to read it. It must include training and discussion to help everyone understand what the policies and procedures mean and how to follow them. This step works best if information is tailored to what a particular group needs to know. For example, when educating program staff about the policies and procedures, focus on the items they need to understand such as how revenues and expenses are assigned to their program, how check requests and expense reimbursements work, what financial information will be available for their program management purposes, etc. – and skip things that don’t pertain to their jobs.

Implementing the Fiscal Policies and Procedures

The last two steps of the process listed in the preceding section – aligning the accounting system and communicating to all board and staff – relate to getting ready to implement fiscal policies and procedures. This section provides more guidance on those steps and how to maintain fiscal policies and procedures on an ongoing basis.



To help align your accounting system with your fiscal policies and procedures, Appendix D contains a [Sample Fiscal Forms Package](#) with various sample forms and worksheets that can be adapted to your agency’s needs in order to implement many elements of the Fiscal Policies and Procedures Manual. The following sample forms/tools are included in the package:

1. Monthly Closing Checklist
2. Cash Receipts Log
3. Bank Reconciliation Template
4. Petty Cash Request Form
5. Check Request Form



SAMPLE FISCAL FORMS PACKAGE

Who? This package should be used by staff to create forms to use for day-to-day fiscal activities that are aligned with the agency’s fiscal policy and procedure manual.

When? Use after the organization’s fiscal policy and procedure manual is developed or revised.

How? Adapt the different samples to your organization as appropriate so that you have the tools to help ensure that day-to-day operations comply with your policies and procedures while remaining efficient.

6. Expense Authorization Form
7. Expense Reimbursement Request Form
8. Fixed Assets Ledger Worksheet
9. Contributions Log

Training and communication are very important to making sure that your day-to-day activities go smoothly while remaining in full compliance with your fiscal policies and procedures. Training and communication is especially critical with staff members who are affected the most by the policies and procedures because they have to fill out forms, obtain approvals and so on. Here are some suggestions for training and communications related to fiscal policies and procedures.



- People tend to resist structure that they perceive as bureaucracy. To overcome this potential resistance, explain why the policies are important and how they serve everyone's interests. Understanding that policies are rooted in best practices for fiscal management and are necessary to sustain funding support and ensure compliance with regulatory requirements, for example, can help people to accept the reality that they need to put a little extra time into completing forms like a check request or expense reimbursement request.
- Managers need to be consistent in following up with staff when policies and procedures are not followed, clarifying the need to adhere to the policies and procedures and emphasizing that compliance is not optional. Failure to enforce the policies – in a respectful, supportive way – will doom them to increasing levels of non-compliance and quite possibly put the organization in a very difficult situation.
- Education about fiscal policies and procedures must be incorporated into the orientation process for new employees, sharing equal importance with personnel policies and procedures. In this way, staff members are immersed in the organization's way of operating from the moment they arrive and are much more likely to be accepting of those guidelines.
- Be prepared to provide short refresher sessions to existing staff members, such as discussing a specific topic like expense reimbursement or financial reports during staff meetings. It is not sufficient to just explain the fiscal policies and procedures once when they are first adopted and then not raise them again.
- Get periodic feedback from the staff about the fiscal policies and procedures to identify areas where employees have concerns, ideas for improving current practices and/or training needs.

Finally, expect to change your fiscal policies and procedures over time. If something isn't working well, look for a different approach that fits your agency better without unduly diminishing your internal controls or compliance with fiscal requirements of donors and regulatory agencies. For example, if one person is being a regular bottleneck to getting payments approved because they are out of the office when approvals are needed, see if a different person can be added to the approval process without compromising internal controls (particularly, proper separation of duties).

5.3 Roles and Responsibilities for Financial Management



Many aspects of a strong financial management capability are rooted in how roles and responsibilities are assigned to, and understood and embraced by, the board and staff. For example, the previous section of the guide highlighted the need for fiscal policies and procedures to clearly designate who has the responsibility and authority to perform each duty required under the policies and procedures. Section 5.1 explained that proper separation of duties is a critical element of an effective system of internal controls, and that separation of duties is fundamentally about how key fiscal duties are split up across different positions.

This section of the toolkit provides more in-depth guidance on assigning roles and responsibilities for financial management. It is organized into three sub-sections. The fiscal roles and duties of the Board of Directors are discussed, followed by fiscal roles and duties of staff. The third section then offers a process and tool for comprehensively assigning all fiscal duties across both the board and staff.



One main tool is associated with this section, and is provided on the companion CD:

- Fiscal duties assignment worksheet

Fiscal Roles and Duties of the Board

Capacity Building Toolkit Module 2 – Governance Design presented the ten overall roles of a nonprofit Board of Directors. Two of those roles are directly tied to financial management:

Ensure Adequate Resources

Providing adequate resources is first and foremost a board responsibility. Board members develop the fundraising strategy and assist in implementation, although the Executive Director and staff may be involved. Ensuring adequate resources is one measure of the board's capabilities, commitment and influence.

Ensure Effective Fiscal Oversight/Ensure Sound Risk Management Policies

The board is responsible for ensuring that income is managed and invested wisely and that budget guidelines and an annual operating budget is adopted and used as management tools. Additionally, on an annual basis, the board must review and discuss the annual audit and make sure that the types and levels of insurance are appropriate and adequate.

What do these overarching roles of the board mean in terms of specific responsibilities? To answer that question, it is necessary to first gain perspective on the distinction between board-level duties versus duties that are more appropriately delegated to staff. Fulfilling the two broad fiscal roles of the board breaks down into more specific categories of duties, as follows.

- **Organizational direction.** Financial management starts with understanding the mission, goals and strategies of the organization so that financial resources can be focused on getting the organization to where it wants to go. The board has a fundamental duty to set the overall direction of the organization through strategic planning and other such efforts.

- **Resource development.** The board works at two levels to help secure sufficient funding for the organization. First, it works at a strategy level to formulate workable approaches to attract and sustain adequate amounts of funding. Second, it works in partnership with the staff at an implementation level to provide targeted assistance in carrying out those revenue-generating strategies.
- **Financial planning.** The board must ensure that the organization has good road maps for financial management in the form of annual operating budgets, cash flow forecasts and capital improvement plans. Although the central duty here is for the board to make sure financial plans are in place that are acceptable to (i.e., have been formally approved by) the board, the board may also take an active role in the development of financial plans.
- **Policy setting.** Policies – the “rules” showing what is and isn’t allowed – must either be set by the board or explicitly delegated to staff to set. Even when delegated, the board is ultimately accountable for the efficacy of those policies and therefore should always have a role in reviewing and approving policies.
- **Oversight.** Board oversight of financial activities and performance can occur in multiple ways. One way is to exercise approval authority over transactions that are large or important enough to warrant advance approval by the board before the transaction occur. Another way is monitoring of financial conditions and performance through diligent review of financial reports and even independent review of financial records by board members or committees. A third role is obtaining independent assurance of the reliability of financial statements and systems through steps such as engaging independent auditors.
- **Fiscal strategizing.** Leadership by the board includes being proactive in formulating innovative ways to improve the financial condition of the organization on an ongoing basis and, when problems do occur, working with staff to develop new solutions to overcome those problems.
- **Compliance.** The board has the ultimate responsibility for ensuring that the organization is complying with all applicable laws and regulations. Much of this is handled from an oversight standpoint, such as obtaining evidence that the federal and state annual information returns have been filed in a timely manner, but the board may also have direct duties set by federal and state law that must be fulfilled, such as the requirement under California law that charities with gross revenue of \$2 million or more must have an audit committee established by the board that conforms to the provisions of the Nonprofit Integrity Act of 2004.

The first two categories, organizational direction and resource development, are addressed in other modules of the Capacity Building Toolkit – organizational direction in Module 1, Strategic Planning, and resource development in Module 4, Grant Writing and Sustainability.

For the remaining categories, it is necessary for the board to work with its staff in making thoughtful decisions on two central questions:

1. What are the specific roles or duties of the board within each category?

2. How will the board fulfill those duties? Each duty may be handled by the board as a whole, assigned to a board-level officer position such as the Chairperson or Treasurer, or assigned to a board-level committee.

The Fiscal Duties Assignment Worksheet presented later in this section can be used to answer these questions and produce an explicit picture of the fiscal roles and responsibilities of the board.

Other Resources

The websites listed in section 5.1 of this toolkit under Essential Finance Terms and Concepts also contain information on the fiscal duties of the board. Two additional sites that offer resources specifically geared for the Board of Directors are listed below.

BoardSource

<http://www.boardsource.org>

This national organization dedicated to effective nonprofit governance offers some free resources related to board development and research on governance, with an extensive array of other publications available for purchase.

The National Economic Development & Law Center (NEDLC)

<http://www.nedlc.org>

Brad Cattel of the NEDLC authored a brief on the legal issues for serving on a nonprofit corporation. This document outlines the responsibilities, duties, rights and liabilities of directors and can be accessed at http://www.nedlc.org/Publications/PDF_legal/708.pdf.

Fiscal Roles and Duties of Staff

The staff is responsible for all aspects of day-to-day operations. As a result, the collection of fiscal roles and duties for staff is much more extensive than those of the board. To make it easier to see the full scope of these duties for staff, it can help to organize them into categories as follows:

- **Support for and involvement in board-level fiscal duties.** All of the board-level duties described earlier have detailed elements where staff support is needed to prepare information or materials that help the board to fulfill their roles. In addition, staff members – and particularly the Executive Director, Chief Financial Officer and potentially other manager-level positions – need to be active partners with the board in many areas such as resource development, financial planning, fiscal strategizing and compliance because these categories are actually joint duties of the board and staff.
- **Procedures and systems.** Whereas the board focuses on *policy* setting, it is up to the staff to develop, implement and maintain effective *procedures and systems* that allow the organization to abide by all of its policies and otherwise fulfill the tenets of good financial management.
- **Accounting functions.** All of the accounting functions listed in section 5.1 of this guide involve ongoing tasks that belong at the staff level and need to be thoughtfully allocated across the available staff members and/or contracted out.

- **Revenue and cost management.** The board may need to approve selected financial transactions, but the staff must manage all revenue and expense transactions by making sure that each transaction is valid, determining which source(s) of funds will be used to pay for each expense, monitoring grants to ensure that the agency complies with all contract terms, and so on.

Assigning fiscal duties to staff positions requires attention to several key issues:

- Who has both the necessary expertise and the appropriate level of authority to fulfill a particular fiscal responsibility?
- Has an effective system of internal controls, including proper separation of duties, been established based on the staff assignments?
- Is the total workload assigned to each staff position reasonable?
- Will any of the assignments produce operational bottlenecks? For example, assigning approval of vendor invoices for payment to a person that is rarely in the office or that works a part-time schedule may create delays in processing that need to be addressed.

Determining Fiscal Role/Duty Assignments



Appendix E contains a [Fiscal Duty Assignment Worksheet](#) to assist you with determining the specific roles of the board and staff in financial management, with clarity about who is responsible for each role. Instructions for using the worksheet are provided in the appendix.

When analyzing your role/duty assignments, be sure to verify that the following critical tests are met regarding separation of duties:

- **Accounts Receivable Separation -** Persons who perform billing / accounts receivable duties do not perform any cash receipts functions (open the mail and restrictively endorse, list, or deposit checks; post payments to accounting records).
- **Cash Management Separation -** Persons who handle cash receipts do not either (a) prepare or sign checks or (b) reconcile bank accounts, and vice versa (persons with cash disbursement duties do not handle cash receipts). In addition, the person who reconciles bank and investment accounts should not have any other involvement in cash management.
- **Accounts Payable Separation -** Persons who perform purchasing and ordering functions do not perform any cash disbursement duties (e.g. authorize, issue and sign checks).



FISCAL DUTY ASSIGNMENT WORKSHEET

Who? This worksheet should be used by the Executive Director and Chief Financial Officer, working in conjunction with the board.

When? Use when first developing a fiscal policy and procedure manual, or any time thereafter when you want to re-evaluate how fiscal duties are allocated to board and staff.

How? Fill out the worksheet based on how fiscal duties are currently assigned, make decisions about duties not already assigned, and then analyze the resulting assignments to see if they can be optimized further.

- **Payroll Separation** - Persons who perform payroll functions, such as approve staff time records and prepare input for payroll checks, do not sign payroll checks or have access to cash and investment accounts.

Once you have used the worksheet to define who is responsible for each item, it is extremely important to “operationalize” these decisions by taking three steps:

1. Update board documents to reflect all duties assigned to the board. Key documents to be revised (or created, if they do not already exist), are:
 - Board member manual, which should include a job description for board members.
 - Bylaws, which should include the duties and authority of all officer positions and committees.
 - More in-depth committee charters that explain the specific duties of each finance-related committee and how the committee will operate in order to fulfill those duties.
2. Update all staff job descriptions as necessary to make sure they reflect the fiscal duties assigned to each staff position.
3. Update the fiscal policy and procedure manual as necessary to ensure full alignment between the manual and your decisions about who is responsible for each accounting and finance duty.

5.4 Budgeting and Financial Planning



This section of the guide presents information, tools and worksheets to assist with financial planning for the organization, with an emphasis on developing one-year operating budgets and long-range capital improvement budgets because these were the specific types of financial planning that were identified as the main priorities by the Kings County Family Resource Centers (FRCs) through the organizational assessment process in late 2006.

Why does financial planning matter? As management consultant Ron Gunn put it, “an organization that doesn't plan its future isn't likely to have one.” Financial planning is the central means of determining how to strengthen the organization's short- and long-term financial position so that it can serve families and communities. The process of developing annual operating budgets helps to clarify program and agency goals and figure out how to best focus available resources to accomplish those goals. The process itself can also be a valuable experience for staff and board members alike to better understand how finances work and how they can personally contribute to achieving financial goals. Once the budget is adopted, it becomes the blueprint for managing revenues, expenses and cash flow throughout the year.



Tools included in this section and available on the companion CD:

- Sample Budget Calendar
- Sample Annual Operating Budget Format and Worksheets
- Capital Improvement Budget Template

Additional information can be found by using the hypertext links to external websites or the appendices.

Types of Budgets and Financial Plans

There are several different types of budgets and financial plans. The ones most commonly used by health and human service agencies are listed below.

1. **Long-range financial plan.** This is a multi-year forecast of revenues and expenses, often also including a forecast of key indicators of financial stability such as cash balances and total net assets, which is tied to a set of financial and strategic goals. A long-range financial plan usually covers anywhere from three to ten years.
2. **Annual operating budget.** The annual operating budget shows revenues, expenses and projected change in net assets for one fiscal year. Operating budgets are prepared at multiple levels of detail:
 - Program and department level, with a separate budget for each major program or category of programs and a separate budget for administration (and, for larger agencies, possibly even breakdowns by administrative department)
 - Consolidated agency budget, combining all of the program and department budgets

3. **Capital improvement plan.** This is a financial plan that focuses specifically on addressing the capital infrastructure or fixed (long-term) asset needs of the organization, covering items such as property, buildings, vehicles, equipment, and major renovations or improvements to capital assets. A capital improvement plan or budget can be prepared for a single fiscal year or can cover many years.
4. **Cash flow forecast.** Most organizations use the accrual basis of accounting, and therefore prepare their annual operating budget using the same accrual-basis principles so that revenues and expenses in the budget are aligned with the same methods that will be used to record actual revenue and expenses throughout the year. Because cash flow is the financial lifeblood of any organization, it can be very valuable to also prepare a cash flow forecast so that any projected shortfalls in cash in a given month can be anticipated and managed.

As noted earlier, the rest of this chapter will focus on annual operating budgets and capital improvement plans.

Annual Operating Budget Development

Developing a complete annual operating budget that reflects realistic expectations for the next fiscal year – neither too optimistic nor overly conservative – and then managing to that budget is perhaps the most important financial management technique available to the board and staff. This section provides guidelines and tools for creating a solid annual operating budget.

Steps in the Budget Process

The budget process can be organized into several major steps that make it easier to conduct. The staff, under the guidance of the Executive Director, has the lead responsibility for preparing the budget but should engage the board at strategic points in the development process. The board is ultimately responsible for approval of the budget. With this in mind, following are the key steps to consider for your budget process:

1. **Get ready to budget.** Preparation includes setting the expected timeline for the process, clarifying who is responsible for each step, scheduling key meetings (especially steps involving the full board or a board committee), and issuing materials needed for the process.
2. **Develop operating goals and overall budget parameters.** The budget is a way to show what

Keys to the Budget Process

1. Start early! Budgeting takes some time and thought, and should not be hurriedly packed into the last few weeks of each fiscal year.
2. Make sure the budget process is driven by your mission and strategic plan. The point is to optimize the use of your projected resources to achieve your goals.
3. Involve the staff and board actively throughout the process – they have important insights to contribute. Also, if people don't understand or believe in the budget, it is much harder to get people to adhere to it.
4. Prepare budget figures for each revenue and expense account in your chart of accounts, using the same principles used in your monthly accounting (such as accrual-basis versus cash-basis accounting). This is the only way to ensure that you can compare your actual revenues and expenses to your budgeted figures in a meaningful manner.
5. Document all assumptions. Make sure people can understand where all of the numbers in the budget came from, i.e. how they were developed.

financial resources will be available and how those resources will be directed to achieve your programmatic and agency goals. Logically, you need to first be clear about your goals before you can figure out how to allocate resources to accomplish them. This is a good time to engage the board in agreeing on operating goals and on any overall guidelines for the budget, such as assumptions about cost-of-living raises for staff or board expectations on the change in net assets that is sought for the next fiscal year.

3. **Prepare preliminary program and department level budgets.** Good budgeting is a “bottom up” process, where each program and administrative unit is engaged in projecting income and expense levels. Doing so produces a more complete picture of the assumptions that are the foundation of the budget, and also helps to highlight opportunities and risks that are likely to impact finances in the coming year. Even in a small single-program agency, it is important to at least prepare separate projections of program and administrative costs.
4. **Prepare a consolidated agency-wide budget and make initial adjustments.** The program and department level budgets are combined into a total agency-wide budget to get a first look at the “big picture” of finances for the next fiscal year. Quite often, that picture shows that expenses are too high for the available income, and adjustments need to be made to the program and department level budgets so that when consolidated, expenses are in line with revenues and/or the “bottom line” expectations set with the board in step two. This is also a good place in the process to prepare a cash flow forecast to show if any cash shortfalls are expected so that proactive strategies can be developed and incorporated into the budget to address those shortfalls.
5. **Obtain initial board review of the proposed budget.** It is common for a board-level committee, such as a Finance Committee or Executive Committee, to take a detailed look at the budget, provide their feedback, and work with staff on strategies to address any particular challenges reflected in the budget. This gives staff the guidance to produce a final version of the budget that is likely to win approval from the full board.
6. **Obtain board approval of the final budget.** Before the budget can be considered complete, it must be formally approved by resolution of the full board. In practice, this step and the previous step may require a couple of iterations to get to the point of having a budget that is acceptable to the board and staff alike.
7. **Implement the budget.** More details about this step are provided later in this chapter under the heading, “Using a Budget as a Management Tool.”



Appendix F contains a [Sample Budget Calendar](#) showing how these steps might be reflected as a timeline. The sample calendar can be used as a tool to create your own budget calendar in step one of the process described above.



SAMPLE BUDGET CALENDAR

Who? This tool can be used by the Executive Director and Chief Financial Officer to create a budget calendar that is then discussed with the board.

When? Use when starting the budget process for the next fiscal year.

How? Adapt the calendar to reflect the steps in your budget process, who should be responsible for each step, and a realistic timeframe for completing each step. Once completed, distribute the budget calendar to all staff and board members so that they understand the budget process.

Budgeting Tools



An example of a format for an annual operating budget and supporting worksheets that can be used to help develop the budget are provided in Appendix G, [Sample Operating Budget Format and Worksheets](#). These tools are based on the Unified Chart of Accounts described in section 5.1 of this toolkit, and would need to be adapted to your chart of accounts and other nuances of your organization.

The format for the budget itself should exactly match the structure of the chart of accounts in the accounting system. Once a line-item detail budget is prepared, it may be summarized for final presentation to the board so that the board does not get lost in the detail. For example, the chart of accounts may contain several accounts related to employee benefits which can be summarized into one line for employee benefits on a board-level report.



SAMPLE OPERATING BUDGET FORMAT AND WORKSHEETS

Who? The person responsible for managing the budget process, usually the Finance Manager or Executive Director.

When? Use when preparing for your next budget process.

How? Customize the templates, following the instructions in the appendices, to reflect your own chart of accounts, approach to budgeting and other unique aspects of the organization.

Other Resources

Management Help's Guide to Nonprofit Financial Management

http://www.managementhelp.org/finance/np_fnce/np_fnce.htm

This website includes information and useful links for developing annual operating budgets and for preparing cash flow forecasts.

Developing a Capital Improvement Plan and Budget

Capital improvements require special attention for several reasons. One, they are usually high cost items that can be difficult to finance. Because of this, it becomes much more critical to be proactive in anticipating capital improvement needs and figuring out how to finance those costs over time because there may not be sufficient cash flow in a single year to cover these large one-time costs. Two, capital improvements carry implications for annual operating costs, affecting expenses like repairs, maintenance, depreciation and interest costs. Three, failure to properly plan for capital improvements can result in significant damage to an organization's ability to provide its services when old assets become increasingly inadequate and are not replaced in a timely manner.

A distinction should be made between a "capital improvement plan" and "capital improvement budget." A capital improvement plan is a complete plan for addressing capital improvement needs and includes a description of the needs, their relative priorities, financing strategies and other narrative in addition to the hard dollar figures. The capital improvement budget is one component of a complete capital improvement plan and shows the financial projections by type of capital improvement and related changes in future operating expenses that are expected because of investments in capital assets.

Planning for capital improvements involves the following main steps:

1. **Prepare for capital improvement planning.** Preparation starts with determining how to involve the board and staff in the planning process. It is also essential to agree upon a time horizon for planning. Are you seeking to address capital improvement needs for just one year? For the next five years? Ten years? More? As a general rule, a five- to ten-year time horizon works best when planning for long-term needs. A one-year capital budget may be sufficient if no major capital improvement needs are expected for the next several years.
2. **Identify capital improvement needs.** Engage the board and staff in identifying specific types of capital improvement investments that should be considered. Be sure to include the following perspectives:
 - Identify capital needs by looking at the strategic plan and anticipating future capital improvements necessary to achieve strategic goals.
 - Consider trends affecting your programs and people being served. Are client needs going to outgrow the capacity of our facilities? Are changing client and community characteristics expected to require changes in your facility design, equipment or other capital infrastructure?
 - Evaluate the condition of existing assets to determine if any assets will require major renovation or replacement.
3. **Evaluate options for addressing each need.** This is a critical step in the process but one that is often overlooked. Be creative in formulating different options or scenarios for how each capital improvement need can be met. Options may include purchase of an asset, leases, construction, sharing of equipment or facilities with other organizations (which could be businesses, public agencies or other nonprofit organizations) and more. Once options have been identified, research and analysis of each option is needed to determine:
 - The total cost of each option over the expected useful life of the asset, taking into account both costs to acquire the asset and annual expenses associated with the item (maintenance, insurance, property taxes, etc.).
 - The non-financial impact on the organization – whether it has the staff and expertise necessary to be successful with each option.
4. **Determine the cost-benefit of each investment.** Select the best available option based on the analysis from the previous step, and then compare the projected cost (money and time) to the expected benefit. This may end up being a somewhat qualitative assessment because benefits can be hard to quantify, but try to state the cost-benefit of each investment in objective terms (*example: New mobile outreach van at total five-year cost of \$40,000 will enable us to provide _____ services to ___ additional people/families with an expected benefit of _____*). This step will help you eliminate capital improvements that sounded good at the beginning but don't stand up to the scrutiny of being cost-beneficial when compared to other more important investments. It can also help you see where to scale back some ideas and expand upon others in order to maximize the cost-benefit of investments.
5. **Develop funding strategies.** For the set of capital improvement items still under consideration, determine how you intend to generate sufficient funding to cover all of the costs – again, both the initial acquisition costs and any extra annual operating costs that will be incurred as a result of the capital improvements. Funding strategies are

discussed in more depth in Module 4 – Grant Writing and Sustainability. Strategies to consider include:

- Grants
- Capital campaigns to generate contributions for specific capital needs
- Business sponsorships
- Sale of old assets that will no longer be needed or that are not as valuable as the new assets to be acquired
- Debt financing (mortgages, lines of credit and so on)
- Use of projected future net operating revenues – the excess of operating revenues over operating expenses – to contribute toward capital improvement needs (e.g. to at least cover depreciation costs)
- Drawing down reserves or net assets accumulated from past years
- Renting or leasing unused capacity to generate income that offsets asset costs

This is only a partial list; there are numerous examples around the country of creative approaches to financing capital improvement projects by cultivating new sources of public funding (e.g. developer fees earmarked to child care facilities, local sales taxes directed to nonprofit capital improvement projects) or using entrepreneurial techniques.

6. **Prepare a draft capital improvement plan and budget.** Put together an integrated picture of the costs, funding sources and justifications for the collection of capital improvement items still under consideration. Appendix H, [Capital Improvement Budget Template](#), provides tools specifically for this purpose. Reviewing these tools can also provide you with insights about issues to consider when completing the preceding steps.



CAPITAL IMPROVEMENT BUDGET TEMPLATE

Who? The capital budget is usually developed by the lead finance staff person but is then used actively by the board and senior management.

When? Use when developing or updating a capital improvement plan.

How? Fill out a Line Item Justification form for each capital improvement item to document the need for the item, strategy/option for meeting the need, and detailed cost information. Then, combine all line items into the Capital Improvement Budget worksheet and add information about funding sources that have been identified.

7. **Prioritize and revise the plan as necessary.** If funding is not available to support all of the capital improvements sought, more analysis is needed to identify more funding, eliminate or scale back some investments, or defer some investments to a later year when sufficient funding will be available.

8. **Adopt the plan and link it to other strategic and financial plans.** Once a capital improvement plan is completed that is financially viable and acceptable to the organization, the plan should be formally approved by the board. It then becomes an integral tool to use in all other planning efforts. First, the strategic plan and capital improvement plan should be aligned with each other. Second, the capital improvement plan provides guidance about annual operating goals and expenses associated with capital improvements that need to be factored into the annual budgeting process.

Other Resources

Financial Management Training Center

<http://exinfmtvs.securesites.net/training/>

A course in Capital Budgeting Analysis is available for free in either online or Microsoft Word formats. The capital budgeting information is written from a corporate perspective and is rather technical in nature, but is especially useful in understanding issues like discounted cash flows that are important for planning large, complex capital improvement projects.

Using a Budget as a Management Tool

Once the budget has been completed and approved, it is necessary to use it actively throughout the year to guide financial decisions and manage operations. Suggestions for how to use a budget as an effective management tool are outlined below.

- **Build understanding throughout the staff about the budget.** Communicate budget targets to all staff members and personalize the information for different people/groups to help people understand how they personally contribute to making the budget work.
- **Use accounting software that can accept budget figures.** Many accounting software products, including QuickBooks Pro and Premier Editions, allow you to enter detailed budget numbers for each program/department, account code and month. Having this caliber of software is a huge timesaver throughout the year in being able to produce financial reports.
- **Produce monthly budget-to-actual reports at the same level of detail as the budget.** If the budget is broken down by program and department, generate a separate report for each program and department that compares actual revenues and expenses to the budgeted levels for the most recent month and the fiscal year-to-date. Of course, a budget-to-actual comparison for the agency as a whole is also extremely important.
- **Distribute the budget-to-actual reports to the people responsible for managing programs and departments.** If a manager or supervisor is being held accountable for their budget and makes decisions about allocating resources, approving expenses and so on, that person should receive a timely budget-to-actual report for their area of responsibility that shows where their program/department stands financially. The Executive Director should receive and review the budget-to-actual reports for every program and department in addition to the consolidated agency-wide report.
- **Use the budget-to-actual information for dialogue and action.** If the budget-to-actual report shows an unfavorable variance, don't just assume it will correct itself in a future month. Ask questions to understand the reasons for the variance, and use this information to determine what actions are needed (if any) to resolve the situation.
- **Use the insights about variances and financial performance to help create your next budget.** When there is a real commitment to financial planning, the budget for the next fiscal year can leverage the learning from the current year and become even more accurate and meaningful as a result. Over time, this continuous learning process can become an embedded cultural habit that enables the organization to set financial targets and then consistently achieve them.

5.5 Financial Reporting



This section provides guidance about financial reports – what reports to prepare, who needs to receive each type of report, how often to provide financial reports, and other important insights about providing timely, organized financial information to the board and staff.



Tools included in this section and available on the companion CD:

- Financial Statement Examples
- Budget-to-Actual Report Template

Required Financial Statements

Statement of Accounting Standards No.117 (SFAS 117), Financial Statements for Not-for-profit Organizations, requires nonprofit voluntary health and welfare organizations such as agencies operating Family Resource Centers to prepare four primary financial statements on an annual basis.

- **Statement of Financial Position.** This statement shows the balances for the organization's assets, liabilities and net assets as of a specific date. It was commonly called a "Balance Sheet" before SFAS 117 was issued.
- **Statement of Activities.** This statement reports revenues, expenses, and the resulting change in net assets for a fiscal year. Changes must be reported for each of the three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. It was commonly known as an "Income Statement" or "Statement of Revenue, Expenses and Changes in Fund Balances" prior to SFAS 117.
- **Statement of Functional Expenses.** This statement shows expenses broken down by type of expense (salaries, employee benefits, rent, supplies and so on) and, for each type of expense, shows how those costs are distributed across program services, administrative and fund raising activities.
- **Statement of Cash Flows.** This report shows how the organization's cash position changed during the year. Cash flow information is divided among receipts and disbursements from investing, financing, and operating activities.



FINANCIAL STATEMENT EXAMPLES

Who? The board, Executive Director and Finance Manager at a minimum.

When? Recommended to produce and issue these reports every month and at year end.

How? Use the examples as a guide to design financial statements that are most meaningful to your organization (while complying with the requirements of SFAS 117), or use them as templates to "plug in" your own numbers each month to produce reports for distribution.



Appendix I, [Financial Statement Examples](#), contains a sample of each of these four financial statements. The CD has a Microsoft Excel file with all four formats already set up.

These financial statements provide the “big picture” understanding of the organization’s financial condition. These are also the same financial statements that would be included in an audit report produced by independent auditors. As such, it is strongly recommended that these financial statements be produced monthly and carefully reviewed by the Executive Director. Recommendations on distribution of the financial statements to board members are provided later in this chapter.

It is beyond the scope of this toolkit to provide detailed instructions on how to prepare these financial statements. However, many accounting software programs contain pre-built reports to generate each of these financial statements.

Other Resources

Nonprofit Resource Center – Analysis of SFAS 117

www.1800net.com/nprc/fasb117.html

This article provides a more in-depth explanation of the financial reporting requirements contained in SFAS 117, including definitions of key terms.

Financial Reports for the Board

It can be a fine line between providing the board with sufficient financial information to enable them to carry out their duties and overwhelming the board with too much detail. This section provides suggestions on how to get the right amount of financial information to the board.

As a general guide, a finance package should be prepared for all board members and distributed to them at least one week, and preferably 10-14 days, before each board meeting. The finance package should contain the following items:

1. A short (one to three page) narrative summary prepared by the Executive Director that highlights any key fiscal issues such as opportunities for new funding, threats to existing funding sources, major changes in financial position, and explanations of any significant budget variances or other financial issues.
2. A Statement of Financial Position for the most recent month for which the accounting records have been closed.
3. A modified version of the Statement of Activities that shows consolidated revenues and expenses for the organization compared to the budgeted targets for the most recent month (or quarter, if the board meets quarterly) and for the fiscal year-to-date. Appendix J, [Budget-to-Actual Report Templates](#), contains examples of budget-to-actual reports you can adapt to your own needs.



BUDGET-TO-ACTUAL REPORT TEMPLATES

Who? The board, Executive Director and Finance Manager at a minimum.

When? Recommended to produce and issue these reports every month and at year end.

How? Use the examples as a guide to design budget-to-actual reports for your organization, or use them as templates to “plug in” your own numbers each month to produce reports for distribution.

4. A Statement of Functional Expenses for the fiscal year-to-date, giving the board more detailed information by line item to understand the expense figures shown on the Statement of Activities. This report can also be prepared in a budget-to-actual format, as shown in Appendix J.

The Statement of Cash Flows should be provided to the Board Treasurer and to the Finance Committee if there is one, but this financial statement is typically confusing to many board members and can often be handled effectively by having the Treasurer or Finance Committee Chair communicate with the board throughout the year if the cash flow statement shows cause for concern. However, the full board should get this report once a year after the books are closed for a fiscal year as required by SFAS 117.

Other suggestions for getting meaningful financial information to the board are:

- Don't assume that board members will understand financial reports; some board members will not have a background in finance. Train new board members on your financial reports as part of the orientation process for board members, and then check back with them after their first few board meetings to see if they have questions about the financial reports.
- Ask the board: what financial information do they want to see? How will they use it? What information should go to the full board, and what information is too detailed for the full board but should instead go to the Chair, Treasurer, Finance Committee, Executive Committee or other such subset of the board?
- Include a finance report on the agenda of each board meeting but don't just limit it to a dry recounting of facts already released on the financial statements. Use it as a time to explain financial trends and issues, and engage the board in strategizing how to improve financial conditions!

Financial Reports for the Executive Director

The Executive Director requires comprehensive financial information in order to fulfill his or her responsibilities. As a result, the Executive Director should receive all of the reports that will go to the board – *before* they go to the board, so s/he can prepare a narrative summary as explained above – and should receive each of the following additional reports at a minimum:

1. A detailed revenue and expense statement for each program and department for which a budget was developed, showing revenues and expenses by individual general ledger account for the program/department compared to the budgeted targets for the most recent month and for the fiscal year-to-date.
2. A consolidated budget-to-actual comparison for the agency as a whole that contains detail for each individual revenue and expense account in the general ledger
3. A fund management report listing each grant, contract and other funding source that shows the original grant/contract/fund amount, the amount expended in previous periods, the amount expended in the most recent month and the remaining balance. A summary of donor-imposed restrictions placed on the funds, including whether the grant or contract expires at a specific time, should be included on the report. This is an

essential tool to make sure that restricted funds are fully utilized in a timely manner according to donor requirements.

4. An accounts receivable aging report showing the total amount due from other persons/ organizations and the number of days each receivable has been outstanding, if the agency as a whole has even a moderate accounts receivable balance. This report can trigger more aggressive actions to collect on receivables so that they do not have to be written off as uncollectible.

If the organization has relatively small or unstable cash reserves, a pro forma cash flow projection covering at least the next six months and preferably the next twelve months should also be produced so that potential cash flow problems can be anticipated and managed.

The lead financial staff person should have reviewed and certified all of the reports as being accurate to the best of their ability before they are sent to the Executive Director.

Financial Reports for Program Staff and Other Staff

Staff members other than the Executive Director and lead financial person also need financial information. Regular distribution of fiscal reports and access to up-to-date financial information is especially important in the following situations:

- Any person who is responsible for preparing a budget and managing to that budget, such as a program manager/supervisor responsible for a program budget or a person responsible for an administrative or fund raising budget, should receive a detailed revenue and expense statement every month for their program/department showing revenues and expenses by individual general ledger account compared to the budgeted targets for the most recent month and for the fiscal year-to-date. People cannot be expected to manage to a budget if they do not know where they stand against that budget.
- Any person who is responsible for managing grants and contracts – who must ensure that grant restrictions are adhered to and that grant reports are submitted – should receive a monthly report showing all expenditures posted in the most recent month against the grants/contracts they are managing and the remaining unspent balance shown in the accounting system for each grant/contract. Providing this information is invaluable in being sure that the agency complies with grant/contract terms and can help detect accounting errors such as charging an expense to the wrong grant.
- Any other person who has authority to approve expenditures should have access to up-to-date budget-to-actual information for the programs/departments for which they are authorized to approve expenditures. This allows them to check to see if there are sufficient funds in the budget to allow a particular expense request to be approved.

Training is essential for any staff members that are provided financial information. In particular, staff members need training on these topics:

- How to read and use the fiscal reports they receive
- Understanding the chart of accounts – what revenues and expenses belong in each account and how account coding is assigned
- How expenses are charged to individual grants, contracts and other funding sources

Finally, it is vital to maintain open communication channels between the accounting/finance group that is producing fiscal reports and everyone else who is relying on those reports so that people are able to ask questions and provide feedback on the usefulness of reports.

Appendices

The following appendices contain worksheets and tools described in the various sections of the toolkit. Electronic copies of the worksheets and tools are also contained on the companion CD.

Appendix A: Unified Chart of Accounts

The following pages show the master list of accounts contained in the Unified Chart of Accounts and how those accounts directly map to the structure of several important types of external reporting – IRS Form 990 and 990-EZ annual nonprofit information returns, federal Office of Management and Budget (OMB) Circular A-122 cost principles for agencies receiving federal grants that require the agency to obtain A-122 audits in addition to their regular financial audit, and the elements of the United Way of America accounting guide.

Two important items must be noted about the Unified Chart of Accounts (UCOA):

- Not all of these accounts are needed for each organization. An agency adopting the UCOA as the basis for creating their chart of accounts should still modify the list of accounts, deleting unnecessary accounts, to fit their purposes.
- For revenue and expense accounts, the UCOA guide suggests adding an activity code to each account in order to separately track income and costs for each program and to separate program costs from administrative costs. Many accounting software products provide a better approach for tracking income and expense by program or department, whereby a master list of programs/departments can be set up and then attached to any transaction. QuickBooks Pro and Premier Editions, for example, provide a feature called “class codes” that can be used for this purpose, as explained more thoroughly in Appendix B. This approach substantially reduces the number of accounts required for the chart of accounts and usually provides more flexibility for financial reporting and analysis. If you are using such an accounting system, do not attach an activity code to each account.

The companion CD contains the UCOA list in a Microsoft Excel format for easier manipulation. The CD also contains a separate file called “Unified Chart of Accounts Keyword Index” that shows how various types of assets, liabilities, revenues and expenses fit into the UCOA framework.

Agencies that plan to use the UCOA should be sure to fill out and submit the simple, and free, license contained on the California Association of Nonprofits website at www.canonprofits.org. Click on the Financial Support link on the left panel of the home page, and then select the Quality Reporting Project option to get more information about the Unified Chart of Accounts and access the license agreement to use the UCOA.

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**Balance Sheet or Statement of
Financial Position Accounts (1000-3999)**

Balance Sheet Account Coding

XXXX


Line item



version 3.0 Account Number		Form 990 Line Item	Form 990 EZ Line Item	OMB A-122 Cost Principles	United Way of America Accounting Guide
1	<u>Assets</u>				
1000	Cash:				
1010	Cash in bank-operating	45	22	n/a	1000-1099
1020	Cash in bank-payroll	45	22	n/a	1000-1099
1040	Petty cash	45	22	n/a	1000-1099
1070	Savings & short-term investments	46	22	n/a	1100-1199
1100	Accounts receivable:				
1110	Accounts receivable	47a	24	n/a	1200-1299
1115	Doubtful accounts allowance	47b	24	n/a	1200-1299
1200	Contributions receivable:				
1210	Pledges receivable	48a	24	n/a	1300-1399
1215	Doubtful pledges allowance	48b	24	n/a	1300-1399
1225	Discounts - long-term pledges	48a	24	n/a	1300-1399
1240	Grants receivable	49	24	n/a	1300-1399
1245	Discounts - long-term grants	49	24	n/a	1300-1399
1300	Other receivables:				
1310	Employee & trustee receivables	50	24	n/a	1200-1299
1320	Notes/loans receivable	51a	24	n/a	1200-1299
1325	Doubtful notes/loans allowance	51b	24	n/a	1200-1299
1400	Other assets:				
1410	Inventories for sale	52	24	n/a	1400-1499
1420	Inventories for use	52	24	n/a	1400-1499
1450	Prepaid expenses	53	24	n/a	1500-1599
1460	Accrued revenues	47a	24	n/a	1200-1299
1500	Investments:				
1510	Marketable securities	54	22	n/a	1700-1799
1530	Land held for investment	55a	22	n/a	1800-1899
1540	Buildings held for investment	55a	22	n/a	1800-1899
1545	Accum deprec - bldg investment	55b	22	n/a	1800-1899
1580	Investments - other	56	22	n/a	1900-1999
1600	Fixed operating assets:				
1610	Land - operating	57a	23	n/a	1800-1899
1620	Buildings - operating	57a	23	n/a	1800-1899
1630	Leasehold improvements	57a	24	n/a	1800-1899
1640	Furniture, fixtures, & equip	57a	24	n/a	1800-1899
1650	Vehicles	57a	24	n/a	1800-1899
1660	Construction in progress	57a	24	n/a	1800-1899
1700	Accum deprec - fixed operating assets:				
1725	Accum deprec - building	57b	23	n/a	1800-1899
1735	Accum amort - leasehold improvements	57b	24	n/a	1800-1899
1745	Accum deprec - furn,fix,equip	57b	24	n/a	1800-1899
1755	Accum deprec - vehicles	57b	24	n/a	1800-1899
1810	Other long-term assets	58	24	n/a	1900-1999
1850	Split-interest agreements	58	24	n/a	1900-1999
1910	Collections - art, etc	58	24	n/a	1900-1999
1950	Funds held in trust by others	58	24	n/a	1900-1999
	Total assets	59	25	n/a	n/a

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Balance Sheet Account Coding
XXXX

Line item 

version 3.0 Account Number		Form 990 Line Item	Form 990 EZ Line Item	OMB A-122 Cost Principles	United Way of America Accounting Guide
2	<u>Liabilities</u>				
2000	Payables:				
2010	Accounts payable	60	26	n/a	2000-2099
2020	Grants & allocations payable	61	26	n/a	2200-2399
2100	Accrued liabilities:				
2110	Accrued payroll	60	26	n/a	2100-2199
2120	Accrued paid leave	60	26	n/a	2100-2199
2130	Accrued payroll taxes	60	26	n/a	2100-2199
2140	Accrued sales taxes	60	26	n/a	2100-2199
2150	Accrued expenses - other	60	26	n/a	2100-2199
2300	Unearned/deferred revenue:				
2310	Deferred contract revenue	62	26	n/a	n/a
2350	Unearned/deferred revenue - other	62	26	n/a	2500-2599
2410	Refundable advances	62	26	n/a	2500-2599
2500	Short-term notes & loans payable:				
2510	Trustee & employee loans payable	63	26	n/a	2400-2499
2550	Line of credit	65	26	n/a	2400-2499
2560	Current portion - long-term loan	65	26	n/a	2400-2499
2570	Short-term liabilities - other	65	26	n/a	2400-2499
2610	Split-interest liabilities	65	26	n/a	2400-2499
2700	Long-term notes & loans payable:				
2710	Bonds payable	64a	26	n/a	2600-2699
2730	Mortgages payable	64b	26	n/a	2600-2699
2750	Capital leases	64b	26	n/a	2600-2699
2770	Long-term liabilities - other	64a	26	n/a	2600-2699
2810	Gov't-owned fixed assets liability	65	26	n/a	2600-2699
2910	Custodial funds	65	26	n/a	2600-2699
	Total liabilities	66	26	n/a	n/a
3	<u>Equity</u>				
3000	Unrestricted net assets:				
3010	Unrestricted net assets	21 & 67	21 & 27	n/a	3000-3999
3020	Board-designated net assets	21 & 67	21 & 27	n/a	3000-3999
3030	Board designated quasi-endowment	21 & 67	21 & 27	n/a	3000-3999
3040	Fixed operating net assets	21 & 67	21 & 27	n/a	3000-3999
3100	Temporarily restricted net assets:				
3110	Use restricted net assets	21 & 68	21 & 27	req	3000-3999
3120	Time restricted net assets	21 & 68	21 & 27	req	3000-3999
3200	Permanently restricted net assets:				
3210	Endowment net assets	21 & 69	21 & 27	n/a	3000-3999
	Total net assets	21 & 73	21 & 27	n/a	n/a
	Total liabilities & net assets	74	n/a	n/a	n/a

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Income Statement or Statement of
Financial Activities Accounts (4000-9999)

Income Statement Account Coding
XXXX-xxx
Line item Activity Code

version 3.0 Account Number		Form 990 Line Item	Form 990 EZ Line Item	OMB A-122 Cost Principles	United Way of America Accounting Guide
4	<u>Contributions, Support</u>				
4000	Revenue from direct contributions:				
4010-***	Individual/small business contributions	1a	1	n/a	4000-4099
4020-***	Corporate contributions	1a	1	n/a	4000-4099
4070-***	Legacies & bequests	1a	1	n/a	4300-4399
4075-***	Uncollectible pledges - estimated	contra 1a	1	n/a	4000-4099
4085-***	Long-term pledges discount	contra 1a	1	n/a	4000-4099
4100	Donated goods & services revenue:				
4110-***	Donated professional services-GAAP	Part IV-A & 82b	n/a	match/in-kind	4000-4099
4120-***	Donated other services - non-GAAP	Part IV-A & 82b	n/a	match/in-kind	n/a
4130-***	Donated use of facilities	Part IV-A & 82b	n/a	match/in-kind	n/a
4140-***	Gifts in kind - goods	1d	1	match/in-kind	4000-4099
4150-***	Donated art, etc	1d	1	match/in-kind	4000-4099
4200	Revenue from non-government grants:				
4210-***	Corporate/business grants	1a	1	match/\$	4000-4199
4230-***	Foundation/trust grants	1a	1	match/\$	4000-4199
4250-***	Nonprofit organization grants	1a	1	match/\$	4000-4199
4255-***	Discounts - long-term grants	contra 1a	1	match/\$	4000-4199
4300	Revenue from split-interest agreements:				
4310-***	Split-interest agreement contributions	1a	1	n/a	4000-4199
4350-***	Gain (loss) split-interest agreements	20	1	n/a	4000-4199
4400	Revenue from indirect contributions:				
4410-***	United Way or CFC contributions	1b	1	match/\$	4700-4799
4420-***	Affiliated organizations revenue	1b	1	match/\$	4500-4599
4430-***	Fundraising agencies revenue	1b	1	match/\$	4800-4899
4500	Revenue from government grants:				
4510-***	Agency (government) grants	1c	1	grant/match	5500-5999
4520-***	Federal grants	1c	1	grant/match	5500-5999
4530-***	State grants	1c	1	grant/match	5500-5999
4540-***	Local government grants	1c	1	grant/match	5500-5999

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Income Statement Account Coding
 XXXX-xxx
 Line item → ← Activity Code

version 3.0 Account Number		Form 990 Line Item	Form 990 EZ Line Item	OMB A-122 Cost Principles	United Way of America Accounting Guide
5	<u>Earned revenues</u>				
5000	Revenue from government agencies:				
5010-***	Agency (government) contracts/fees	2 & 93(g)	2	n/a	5000-5499
5020-***	Federal contracts/fees	2 & 93(g)	2	grant/match	5000-5499
5030-***	State contracts/fees	2 & 93(g)	2	grant/match	5000-5499
5040-***	Local government contracts/fees	2 & 93(g)	2	grant/match	5000-5499
5080-***	Medicare/Medicaid payments	2 & 93f	2	grant/match	5000-5499
5100	Revenue from program-related sales & fees:				
5180-***	Program service fees	2 & 93(a)	2	match/\$	6200-6499
5185-***	Bad debts, est - program fees	2 & 93(a)	2	match/\$	6200-6499
5200	Revenue from dues:				
5210-***	Membership dues-individuals	3 & 94	3	n/a	6000-6099
5220-***	Assessments and dues-organizations	3 & 94	3	n/a	6100-6199
5300	Revenue from investments:				
5310-***	Interest-savings/short-term investments	4 & 95	4	n/a	6500-6599
5320-***	Dividends & interest - securities	5 & 96	4	n/a	6500-6599
5330-***	Real estate rent - debt-financed	6a & 97a	8	n/a	6500-6599
5335-***	Real estate rental cost - debt-financed	6b & 97a	8		
5340-***	Real estate rent - not debt-financed	6a & 97b	8		
5345-***	Real estate rental cost - not debt-financed	6b & 97b	8		
5350-***	Personal property rent	6a & 98	8		
5355-***	Personal property rental cost	6b & 98	8	n/a	6500-6599
5360-***	Other investment income	7 & 99	4	n/a	6500-6599
5370-***	Securities sales - gross	8a-(A) & 100	5a	n/a	6600-6699
5375-***	Securities sales cost	8b-(A) & 100	5b	n/a	6600-6699
5400	Revenue from other sources:				
5410-***	Non-inventory sales - gross	8a-(B) & 100	5a	40	6600-6699
5415-***	Non-inventory sales cost	8b-(B) & 100	5b	40	6600-6699
5440-***	Gross sales - inventory	10a & 102	8	n/a	6400-6499
5445-***	Cost of inventory sold	10b & 102	8	n/a	6400-6499
5450-***	Advertising revenue	11 & 103	8	n/a	6900-6999
5460-***	Affiliate revenues from other entities	11 & 103	8	n/a	6900-6999
5490-***	Misc revenue	11 & 103	8	n/a	6900-6999
5800	Special events:				
5810-***	Special events - non-gift revenue	9a & 101	6a	n/a	4200-4299
5820-***	Special events - gift revenue	1a & (9a)	1 & (6a)	n/a	4200-4299
6	<u>Other revenue</u>				
6800	Unrealized gain (loss):				
6810-***	Unrealized gain (loss) - investments	Part IV-A	n/a	n/a	6600-6699
6820-***	Unrealized gain (loss) - other assets	Part IV-A	n/a	n/a	6600-6699
6900	Net assets released from restriction:				
6910-***	Satisfaction of use restriction	n/a	n/a	n/a	n/a
6920-***	LB&E acquisition satisfaction	n/a	n/a	n/a	n/a
6930-***	Time restriction satisfaction	n/a	n/a	n/a	n/a
	Total revenue, gains, & other support	12	9	n/a	n/a

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Income Statement Account Coding
 XXXX-xxx
 Line item → ← Activity Code

version 3.0 Account Number		Form 990 Line Item	Form 990 EZ Line Item	OMB A-122 Cost Principles	United Way of America Accounting Guide
7	<u>Expenses - personnel related</u>				
7000	Grants, contracts, & direct assistance				
7010-***	Contracts - program-related	22	10	9	9100-9199
7020-***	Grants to other organizations	22	10	9, 39	9100-9199
7040-***	Awards & grants - individuals	22	10	39	9100-9199
7050-***	Specific assistance - individuals	23	10	34	8900-8999
7060-***	Benefits paid to or for members	24	11	34	?
7200	Salaries & related expenses:				
7210-***	Officers & directors salaries	25	12	7, 32	7000-7099
7220-***	Salaries & wages - other	26	12	7, 32	7000-7099
7230-***	Pension plan contributions	27	12	7, 36	7100-7199
7240-***	Employee benefits - not pension	28	12	7, 13, 49	7100-7199
7250-***	Payroll taxes, etc.	29	12	7	7200-7299
7500	Contract service expenses				
7510-***	Fundraising fees	30	13	39	8000-8099
7520-***	Accounting fees	31	13	39	8000-8099
7530-***	Legal fees	32	13	39	8000-8099
7540-***	Professional fees - other	43	13	39, 44	8000-8099
7550-***	Temporary help - contract	43	13	39	8000-8099
7580-***	Donated professional services - GAAP	Part IV-B, 82b	n/a	12	8000-8099
7590-***	Donated other services - non-GAAP	Part IV-B, 82b	n/a	12	n/a

First 5 Kings County – Financial Management Toolkit

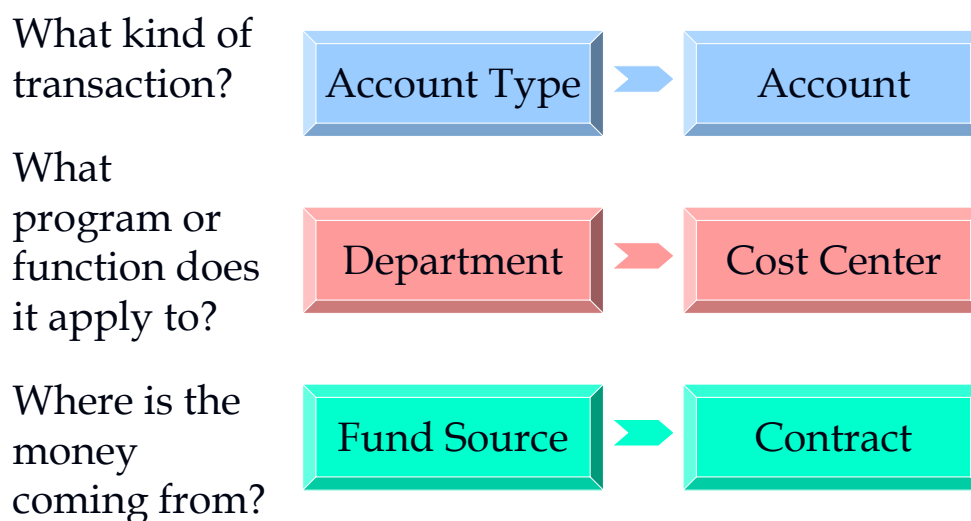
Income Statement Account Coding
 XXXX-xxx
 Line item → ← Activity Code

version 3.0 Account Number		Form 990 Line Item	Form 990 EZ Line Item	OMB A-122 Cost Principles	United Way of America Accounting Guide
8	<u>Non-personnel related expenses</u>				0
8100	Nonpersonnel expenses:				
8110-***	Supplies	33	16	28	8100-8199
8120-***	Donated materials & supplies	33	16	12	8100-8199
8130-***	Telephone & telecommunications	34	16	6	8200-8299
8140-***	Postage & shipping	35	15	6, 54	8300-8399
8150-***	Mailing services	35	15	6	8300-8399
8170-***	Printing & copying	38	15	28, 33, 41	8600-8699
8180-***	Books, subscriptions, references	38	15	30, 41	8600-8699
8190-***	In-house publications	38	15	28, 33, 41	8600-8699
8200	Facility & equipment expenses:				
8210-***	Rent, parking, other occupancy	36	14	37, 46	8400-8499
8220-***	Utilities	36	14	19, 46	8400-8499
8230-***	Real estate taxes	36	14	51	8400-8499
8240-***	Personal property taxes	36	14	51	8400-8499
8250-***	Mortgage interest	36	14	23	8400-8499
8260-***	Equipment rental & maintenance	37	14	27, 46	8500-8600
8270-***	Deprec & amort - allowable	42	16	11, 15	9500-9599
8280-***	Deprec & amort - not allowable	42	16	11, 15	9500-9599
8290-***	Donated facilities	Part IV-B, 82b	n/a	12	8400-8499
8300	Travel & meetings expenses:				
8310-***	Travel	39	16	44, 45, 55, 56	8700-8799
8320-***	Conferences, conventions, meetings	40	16	29, 34	8800-8899
8500	Other expenses:				
8510-***	Interest-general	41	16	23	9200-9299
8520-***	Insurance - non-employee related	43	16	5, 22	9300-9399
8530-***	Membership dues - organization	43	16	30	9400-9499
8540-***	Staff development	43	16	44, 53	9400-9499
8550-***	List rental	43	16	23	9400-9499
8560-***	Outside computer services	43	16	39	8000-8099
8570-***	Advertising expenses	43	16	1	9400-9499
8580-***	Contingency provisions	43	16	8	9400-9499
8590-***	Other expenses	43	16	20, 35, 43	9400-9499
8600	Business expenses:				
8610-***	Bad debt expense	43	16	3	9400-9499
8620-***	Sales taxes	43	16	51	9400-9499
8630-***	UBITaxes	43	16	51	9400-9499
8650-***	Taxes - other	43	16	51	9400-9499
8660-***	Fines, penalties, judgments	43	16	10, 16	9400-9499
8670-***	Organizational (corp) expenses	43	16	31, 44, 45, 47, 50	9400-9499
	Total expenses	44	17	n/a	n/a
9	<u>Non-GAAP expenses</u>				
9800	Fixed asset purchases				
9810-***	Capital purchases - land	capitalized	capitalized	11, 15	LB&E
9820-***	Capital purchases - building	capitalized	capitalized	11, 15, 42	LB&E
9830-***	Capital purchases - equipment	capitalized	capitalized	11, 15	LB&E
9840-***	Capital purchases - vehicles	capitalized	capitalized	11, 15	LB&E
9910-***	Payments to affiliates	16	16	9	9600-9699
9920-***	Additions to reserves	n/a	n/a	n/a	n/a
9930-***	Program administration allocations	n/a	n/a	n/a	n/a

Appendix B: Sample Coding Structure for QuickBooks

The transaction coding structure shown below is intended only as an illustration of what should be considered by nonprofit organizations using the QuickBooks Pro or Premier Editions accounting software in order to have integrated tracking of programs/operating functions and individual funding sources within the accounting system. QuickBooks Pro terminology is used because of the widespread use of this software product and the fact that it will support the coding structure presented here. Please note that these features are not all available in the basic version of QuickBooks – the Pro or Premier edition is needed.

A complete coding structure for fund management requires three different types of codes, as shown in the following diagram:



The terms “account type”, “account”, “department” and “cost center” are commonly used terms in accounting systems. QuickBooks Pro does not use these terms, but the software contains features that can simulate the three levels of coding. In QuickBooks Pro:

- A series of pre-defined account types like Bank, Current Assets and Revenue are included in the software. Users can then create their own individual accounts.
- A separate feature called “classes” can be used to set up departments and cost centers.
- Another feature called “customer:job” can be used to track funding sources by creating a “customer” for each source of funding for the organization and a “job” for each specific grant or funding stream received from each funding source.

An example of how this would work is shown below. The transaction codes from the organization’s existing chart of accounts can be used for the Account Types and Accounts. The following example uses account descriptions from the nonprofit Unified Chart of Accounts.

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<u>Account Type</u>	<u>Accounts</u>
Bank	1010 Cash in bank – operating 1020 Cash in bank - payroll
Current Assets	1100 Accounts Receivable 1110 Accounts Receivable 1190 Allowance for Doubtful Accounts 1210 Pledges Receivable 1220 Allowance for Doubtful Pledges 1240 Grants Receivable 1320 Inventories for Use 1350 Deferred Charges and Prepaid Expenses
Current Liabilities	2010 Accounts Payable 2110 Accrued Expenses – Payroll 2200 Grants and Allocations Payable
Equity	3010 Unrestricted Available Net Assets 3300 Net Assets – Temporarily Restricted for Programs 3500 Net Assets – Temporarily Time Restricted 3910 Permanently Restricted Net Assets
Revenue	4000 Contributions 4010 Contributions from Individuals & Businesses 4050 Contributions through Special Events 4070 Bequests and Legacies 4200 Grants 4230 Foundation and Trust Grants 4250 Grants from Other Nonprofit Organizations 4540 Government Grants - Local
Expenses	7020 Grants to Other Organizations 7050 Specific Assistance to Individuals 7210 Salaries – Officers, Directors and Trustees 7220 Salaries – Other Employees 7320 Employee Benefits 7530 Legal Fees etc.

The “class” feature in QuickBooks Pro can represent each separate program, project, and operating function that the organization wants to track. In particular, a class should be created for each program or project that has its own budget so that it is easy to generate budget-to-actual reports.

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The table below shows a sample layout of “classes” for a children and family services agency.

<u>Master Class</u>	<u>Sub-Class</u>
Program Services	Family Resource Center – Pleasant City Family Resource Center – Centerville Early Steps to Success Literacy Program Community Outreach and Engagement
Fund Raising (*)	Contribution Campaigns Grant and Contract Development Other Fund Raising
Administration (*)	Board Development and Support Finance Other Administration

(*) For smaller organizations, it may not be necessary or useful to break Fund Raising and Administration down into sub-classes. It is acceptable to just have one class in each of these categories.

The “customer:job” feature in QuickBooks Pro can be used to track each individual funding stream so that the organization has a complete audit trail of income and expenses for each source and category of funding. A possible layout is:

<u>Customer</u>	<u>Job</u>
Unrestricted Funds	None
First 5	Family Support Grant 2005-06 Family Support Grant 2006-07 Public Education Grant 2006-07
Community Foundation	Strategic Planning Support Grant 2006-07

Using this structure, if multiple grants are received from the same organization, they can be tracked separately but it would also be easy to get a consolidated total of activity by funding agency.

Each financial transaction involving revenues or expenses would then be assigned at least one of each type of code – an account, class, and customer:job. Transactions may also be split across multiple codes.

Illustration: If \$500 is spent on supplies that will be split between two Family Resource Center locations, the transaction could be coded and entered into QuickBooks Pro as follows:

<u>Account</u>	<u>Class</u>	<u>Customer:Job</u>	<u>Amount</u>
7710 – Supplies	FRC – Pleasant City	First 5: Family Support Grant 06-07	\$250.00
7710 – Supplies	FRC - Centerville	First 5: Family Support Grant 06-07	\$250.00

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When transactions are coded in this manner, reports can be generated in a very flexible way to analyze individual items or consolidate items. A report could be run for the Early Steps to Success Literacy Program that consolidates all funding sources for the program, or the report could just isolate the use of one funding source. Another report could look at the use of unrestricted funds across all programs. Total program expenditures can be easily reported, as can total administrative expenditures.

Appendix C: Fiscal Policy and Procedure Manual Template

How to use the Fiscal Policy and Procedure Manual Template

Throughout the template, items where agency-specific decisions need to be made are highlighted in yellow. Explanatory notes are highlighted in blue, and should be removed from the final policy and procedure manual. If you are using the template as the basis to create a fiscal policy and procedure manual, the following steps are recommended:

1. Replace “Organization Name” with your agency’s name throughout the template (cover page, page 1, and the header of page 1) and replace “XXXX” with the acronym of your organization or, if you prefer, your organization’s name or an abbreviated version of the name.
2. Make decisions about board and staff roles and responsibilities related to financial matters so that it is clear which specific position is responsible for or has the authority for each issue contained in the template. The information in section 5.3 of this toolkit and the worksheet in Appendix E can assist with this step. Then, each place in the template where the yellow-highlighted area says “__(position)___”, “__(committee)___” or something similar, fill in the specific job title or board officer/committee name(s) that has responsibility or authority over that issue.
3. Get board input on the key policy issues, as explained in section 5.2 of this toolkit, and use the board’s decisions to fill in as many other yellow-highlighted areas as possible.
4. Replace all remaining yellow-highlighted areas with the staff recommendation for how that issue should be handled.
5. Delete all blue-highlighted areas, which are explanations for the template that do not belong in an official policy and procedure manual. If any entire sub-sections are deleted from the manual because they are not applicable to your organization, be sure to re-letter the sub-sections that follow within the major topic heading.
6. Review the manual, making any other changes to the text that are appropriate for your organization and adding information about specific accounting/finance procedures that you have developed but are not yet reflected in the document.
7. Update the table of contents for the manual. In Microsoft Word versions before Office 2007, click on the Insert menu, select the Reference option and then select the Index and Tables option. Click on the Table of Contents tab and then click on the Show Outlining Toolbar button. A new toolbar will appear in the top several rows of the screen. You can then click on the Update TOC button on the toolbar, select the Update Entire Table option, and click the OK button to re-generate the table of contents to reflect all of the other changes you made to the document.

After these steps, you should have a complete manual that is ready for review by the board and staff as described in section 5.2 of the toolkit.

The template is contained in a separate document file to preserve its formatting as a stand-alone manual. Microsoft Word word processing software is needed to modify the template.

Appendix D: Sample Fiscal Forms Package

How to use the Sample Fiscal Forms Package

The following sample forms/tools are included in this appendix; the references in parentheses show which section(s) of the Fiscal Policy and Procedure Manual Template the item relates to:

1. Monthly Closing Checklist (section 1.D)
2. Cash Receipts Log (section 2.B)
3. Bank Reconciliation Template (section 2.E)
4. Petty Cash Request Form (section 2.F)
5. Check Request Form (sections 3.A and 3.B)
6. Expense Authorization Form (sections 3.A and 3.C)
7. Expense Reimbursement Request Form (section 3.C)
8. Fixed Assets Ledger Worksheet (section 5.D)
9. Contributions Log (section 6.A)

Decide which forms/tools are applicable to your organization, and for each one that is applicable:

1. Add your organization's name to the top of each form or tool.
2. Change the terminology or other aspects of the tool as appropriate to fit your needs.
3. Save the file under a new name that shows that it is your agency-specific version of the tool.

Additional explanations are included before the sample of each tool.

The forms and tools have been developed using the Microsoft Word word processing and Microsoft Excel spreadsheet programs. The samples shown on the following pages are pictures to show you what each tool looks like. The actual tools can be accessed on the companion CD.

D-1 Monthly Closing Checklist

This tool is used to track the steps in the monthly closing process in order to verify that all steps described in the fiscal policy and procedure manual were completed.

MONTHLY CLOSING CHECKLIST

Month/Year: _____

<u>Task</u>	<u>Completed?</u>	<u>Done By</u>	<u>Date</u>
1. All invoices and receipts pertaining to the month entered into the accounting system; month closed to further transaction entry	<input type="checkbox"/>	_____	_____
2. Bank and investment accounts reconciled	<input type="checkbox"/>	_____	_____
3. Fixed assets ledger updated for all fixed asset purchases, sales, retirements and changes in remaining useful life	<input type="checkbox"/>	_____	_____
4. Accounts receivables analysis completed; adjustments to accounts receivable entered	<input type="checkbox"/>	_____	_____
5. Standard/recurring monthly journal entries posted	<input type="checkbox"/>	_____	_____
6. Asset, liability and net asset accounts reconciled	<input type="checkbox"/>	_____	_____
7. Trial balance and general ledger review completed	<input type="checkbox"/>	_____	_____
8. General journal and supporting documentation for all journal entries completed	<input type="checkbox"/>	_____	_____
9. Financial reports for the Board completed and issued	<input type="checkbox"/>	_____	_____
10. Financial reports for the Executive Director completed and issued	<input type="checkbox"/>	_____	_____
11. Financial reports for program/other managers and staff completed and issued	<input type="checkbox"/>	_____	_____

D-7 Expense Reimbursement Request Form

This tool is used to reimburse board and staff members for expenses they incur out-of-pocket for authorized organizational purposes. There are two parts to the form, a main sheet for all types of expenses plus an additional supporting document for mileage reimbursements for use of a private automobile. Each part is contained on a separate tab in the Microsoft Excel file on the CD that accompanies this toolkit. The form is formatted for weekly expense reporting but also allows multiple sheets to be submitted together to support bi-weekly or other reporting cycles.

NAME:
PAYMENT REQUEST DATE:

EXPENSE REIMBURSEMENT REQUEST

MAKE CHECK PAYABLE TO:
ADDRESS:
CITY/STATE/ZIP:

PURPOSE OF THE TRAVEL AND/OR EXPENSE:

Date	SUN	MON	TUE	WED	THUR	FRI	SAT	TOTAL
TRANSPORTATION COSTS								
1. Airplane Fare								\$ -
2. Railroad Fare								\$ -
3. Ground Transportation								\$ -
4. a. Private Auto Mileage*								\$ -
b. Tolls								\$ -
c. Parking								\$ -
d. Other (specify)								\$ -
RELATED TRAVEL EXPENSES								
5. Hotel/Motel Room & Tax								\$ -
6. Breakfast (incl. Tax & Tip)								\$ -
7. Lunch (incl. Tax & Tip)								\$ -
8. Dinner (incl. Tax & Tip)								\$ -
9. Tips (Other Than Meals)								\$ -
OTHER EXPENSES								
10. Phone & Communications								\$ -
11. Meeting Expenses								\$ -
12. Printing/Copying								\$ -
13. Other Expenses (itemize below)								\$ -
								\$ -
								\$ -
								\$ -
								\$ -
								\$ -
								\$ -
								\$ -
Total this page	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Forwarded from attached pages								\$ -
TOTAL EXPENSE	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

CERTIFICATION
I certify that this accounting is correct, that I have paid out the amounts listed and I have not received previous reimbursements for them.

Person Requesting Reimbursement _____ Date _____

APPROVAL
I have reviewed this expense request and the supporting documentation, and approve it for payment.

Authorized Approver _____ Date _____

Appendix E: Fiscal Duty Assignment Worksheet

How to use the Fiscal Duty Assignment Worksheet

This tool was developed as a Microsoft Excel spreadsheet and will need to be customized to your agency. The worksheet can be used in several ways. One, it provides a visual way of making sure that all roles and responsibilities described in the organization's fiscal policy and procedure manual have been explicitly assigned to someone. Second, it helps identify potential problems with separation of duties because it becomes more evident if one person is handling too many aspects of a particular category of financial activity. Third, it can be easily re-sorted using the Data – Sort feature in Microsoft Excel to show all responsibilities together for a person or group (for example, to show all fiscal responsibilities of the full board or of the Executive Director).

Guidelines for using this worksheet:

1. Update the rows in the body of the worksheet so that it comprehensively lists all fiscal duties referenced in your fiscal policy and procedure manual. This may mean deleting items in the sample tool that are not relevant to your organization, and adding new items where needed.
2. For each row, identify who is responsible for that item and enter it into the appropriate cell in the worksheet. You can simply put an "X" under Full Board, Executive Director or Finance Manager if one of those groups or persons is wholly responsible for the item. For Officers, Committees or Other Staff, enter the name of the officer position, board committee or staff position that is responsible. You can also enter descriptive text information into the cells. For example, under the Purchasing category, if the board must approve expenditures over \$10,000 but the Executive Director can approve expenditures under that amount, enter something like "Over \$10,000" under the Full Board column next to the duty of "Approve staff expense requests" and enter "\$10,000 and under" for the Executive Director.
3. Once you have filled out the entire worksheet, look down the columns to see if one person has too much responsibility in any given category to the point that it creates a potential internal control problem. Use these insights to propose changes to the assignments of duties in order to create proper separation of duties.
4. Distribute the worksheet to board members and other staff members to help everyone understand "who does what" and to see if they have feedback about any other changes to the assignments of duties.
5. When finalized, make sure that the fiscal policy and procedure manual, board job descriptions (including officer and committee charters) and staff job descriptions are updated to accurately reflect the assignments of fiscal duties.

The following pages show only a picture of the worksheet. Retrieve the worksheet file from the companion CD to modify and use this tool.

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FISCAL DUTY ASSIGNMENT WORKSHEET

<u>Category</u>	<u>Role/Responsibility</u>	<u>Board Responsibilities</u>			<u>Staff Responsibilities</u>		
		<u>Full Board</u>	<u>Officer</u> [enter title(s)]	<u>Committee</u> [enter name]	<u>Executive Director</u>	<u>Finance Manager</u>	<u>Other</u> [enter title(s)]
Cash receipts	Open mail and retrieve checks						
Cash receipts	Accept cash in person						
Cash receipts	Prepare cash receipts log						
Cash receipts	Prepare bank deposits						
Cash receipts	Make deposits at bank						
Cash disbursements	Assign account coding for expenses						
Cash disbursements	Post vendor invoices/claims						
Cash disbursements	Approve board reimburse. requests						
Cash disbursements	Approve staff reimburse. requests						
Cash disbursements	Review credit card reconciliations						
Cash disbursements	Prepare checks for signature						
Cash disbursements	Sign checks						
Cash disbursements	Mail checks for payments						
Other cash	Receive unopened bank statements						
Other cash	Reconcile bank accounts						
Other cash	Manage petty cash fund						
Other cash	Conduct audit of petty cash fund						
Other cash	Maintain control of unused checks						
Investments	Select banks/investment advisors						
Investments	Select investment instruments						
Investments	Approve investment instruments						
Investments	Receive investment statements						
Investments	Prepare investment reports						
Investments	Review investment reports						
Purchasing	Approve board expense requests						
Purchasing	Approve staff expense requests						
Purchasing	Verify items received match request						
Payroll	Approve changes to pay rates/status						
Payroll	Receive and review time sheets						
Payroll	Process time sheets in payroll sys.						
Payroll	Prepare pay checks						
Payroll	Review and sign pay checks						
Payroll	Distribute pay checks						
Payroll	Make payroll tax deposits						
Payroll	Review proof of payroll tax deposits						
Payroll	Prepare payroll tax returns						
Payroll	Review/approve payroll tax returns						
Payroll	Review independent contractor info						
Accounts receivable	Prepare invoices						
Accounts receivable	Review/approve invoices						
Accounts receivable	Post invoices to accounting system						
Accounts receivable	Follow up on overdue accounts						
Accounts receivable	Approve AR adjustments/write-offs						

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FISCAL DUTY ASSIGNMENT WORKSHEET

<u>Category</u>	<u>Role/Responsibility</u>	<u>Board Responsibilities</u>			<u>Staff Responsibilities</u>		
		<u>Full Board</u>	<u>Officer</u> [enter title(s)]	<u>Committee</u> [enter name]	<u>Executive Director</u>	<u>Finance Manager</u>	<u>Other</u> [enter title(s)]
Fixed assets	Approve sale/disposition of assets						
Fixed assets	Maintain the fixed assets ledger						
Fixed assets	Perform physical inventory of assets						
Fund administration	Post donations to Donations Log						
Fund administration	Issue acknowledgements to donors						
Fund administration	Approve inter-fund transfers						
General ledger	Prepare journal entries						
General ledger	Review/approve journal entries						
General ledger	Reconcile balance sheet accounts						
General ledger	Review general ledger						
Budgeting	Prepare annual budget calendar						
Budgeting	Develop the annual budget						
Budgeting	Approve annual budget						
Budgeting	Approve mid-year budget changes						
Financial reporting	Prepare reports for board						
Financial reporting	Prepare reports for staff						
Financial reporting	Review/approve financial reports						
Risk management	Review insurance coverages						
Risk management	Receive/review legal issues						
Audit	Evaluate/recommend auditors						
Audit	Approve selection of auditors						
Audit	Coordinate audit process						
Audit	Review draft audit report						
Audit	Receive/review final audit report						
Compliance	Verify license/certification req'ts met						
Compliance	Prepare annual information returns						
Compliance	Review annual information returns						
Fiscal policy	Recommend fiscal policy changes						
Fiscal policy	Approve fiscal policy changes						
Fiscal policy	Develop procedures to fit policies						
Fiscal policy	Approve fiscal procedures						

Appendix F: Sample Budget Calendar

SAMPLE BUDGET CALENDAR

The steps to be performed in preparing XXXX's budget for fiscal year _____ are listed below along with the timeframe for completing each step and who is responsible for each step.

Step	Timeframe	Responsibility
1. Develop operating goals for the new fiscal year and initial budget parameters	9/1 – 9/15	Board, with executive staff
2. Prepare budget worksheets for each program and department	9/16 – 9/30	All managers/supervisors
3. Prepare the first draft of the consolidated agency-wide budget and review to verify alignment with funding requirements	10/1 – 10/6	Finance Manager
4. Determine changes needed to program/department budgets in order to produce an acceptable agency-wide budget; make changes and produce the second draft of the consolidated agency-wide budget	10/7 – 10/15	Executive Director and Finance Manager
5. Prepare cash flow forecast	10/16 – 10/22	Finance Manager
6. Prepare budget package for initial review by board committee	10/23 – 10/31	Executive Director
7. Obtain board committee review and make changes to the budget based on committee guidance	11/1 – 11/15	Board Finance Committee
8. Prepare budget package for full board review	11/16 – 11/30	Executive Director
9. Obtain board approval of complete budget	12/1 – 12/15	Board of Directors
10. Enter approved budget figures into the accounting system and produce final budget reports	12/15 – 12/22	Finance Manager

Note: Although the above process is shown in a linear format, it is important to recognize that budgeting is really iterative. Decisions made in each step may require changes to conclusions made in previous steps. For example, once budget figures have been developed, it may be determined that the resources are simply not available to achieve all of the operating goals set for the year, in which case the goals may need to be revised or else new strategies devised to attract new resources.

Appendix G: Sample Operating Budget Format and Worksheets

How to use the Sample Operating Budget Format and Worksheets

This tool was developed as a Microsoft Excel workbook that uses several formatted worksheets to gather the key information needed for an operating budget, and then computes a complete revenue and expense budget by general ledger account based on the information entered on the worksheets. It can be used as an example of how to structure different types of budget worksheets in order to get input from program and department managers/supervisors on key budget parameters. Or, it can be customized to your agency to provide a budget “system” capable of producing all of your budget figures with built-in documentation of the assumptions that drive the budget numbers.

There are six parts to this tool. Each part is contained on a separate tab in the Excel workbook. The parts are:

1. Goals worksheet – Used to document goals for the next fiscal year.
2. Volume and Income worksheet – Used to forecast volume (service activity levels) and revenues for programs; typically not used for administrative departments.
3. Operating Expense worksheet – Used to forecast staffing levels and non-labor expenses.
4. Capital Expenditure worksheet – If the agency does not need an extensive capital improvement plan, this worksheet can be used to obtain requests for equipment purchases and other capital asset purchases. See section 5.4 of the Toolkit for more information on capital improvement planning.
5. Other Assumptions worksheet – More technical information usually handled centrally by the Finance function, and not by program managers/supervisors, is located here.
6. Full Budget tab – Contains the calculations and links to the other worksheets needed to produce a complete revenue and expense budget by general ledger account.

General guidelines for customizing these worksheets to your organization:

1. Change the heading of each worksheet to indicate what fiscal year is being budgeted.
2. The worksheets are structured for a calendar year-end fiscal year (i.e., a fiscal year running from January to December). If you use a different fiscal year, change the column headings for all worksheets showing breakdowns by month to match your fiscal year.
3. The general ledger accounts shown in the worksheet are taken from the Unified Chart of Accounts. These will need to be modified to fit your account structure. Any expense accounts added or changed on the Operating Expense worksheet will also need to be changed on the Full Budget tab – including adding/modifying the formulas on this tab – if you want the Excel workbook to automatically consolidate the budget results on the Full Budget tab.
4. When finished, protect each worksheet in the Excel file by clicking on each tab and then clicking on the Tools menu in Excel, select the Protection option, select the Protect Sheet... option and click the OK button. This will prevent people from damaging any of the formulas when entering budget information directly into the Excel file.

Detailed instructions for each worksheet, with samples, follow in this appendix.

Overview to Using the Budget Worksheets

The information presented below can be used as general instructions if you decide to adapt these budget worksheets for your organization, and especially if you have staff members fill out the worksheets in electronic form.

Rather than asking non-financial staff persons to perform the detailed calculations needed to prepare a complete account-level budget, the budget worksheets are used to define the assumptions or parameters that are expected to drive client service volume, income and expenses in the next fiscal year. Finance or executive staff persons will then use the information on the budget worksheets to prepare account-level budgets.

The budget worksheets are also structured so they can evolve into being a complete management package at the end of the budget process. At the end of the budget process, each person responsible for a program or department budget will have an integrated package that has their final budget numbers and all of the assumptions that produced those budget numbers.

Up to four worksheets should be completed for each program area and administrative department.

1. **Goals.** This worksheet is used to define what the program/department seeks to accomplish in the next fiscal year, and also allows you to describe other anticipated changes that may impact the budget.
2. **Volume and Income.** This worksheet is used to define service statistics (hours of counseling, number of parent education classes to be conducted, number of play groups, etc.) and enter projected activity volume by month or enter a total for the year that can be spread evenly to the months. It also allows income projections to be entered, differentiating between income that is based on unit of service volume (e.g. program service fees), “fixed” income that is already assured such as grants/contracts for next year that have already been received, and income that is not yet guaranteed but reasonably likely to be received. The worksheet only applies to program areas that generate income or that have specific measures of activity or volume that are being tracked; people in most non-income producing areas would skip this worksheet.
3. **Operating Expenses.** This worksheet is used to define the direct operating costs needed by the program or administrative unit, meaning the costs for which the manager or supervisor are directly responsible. Personnel costs are a large part of expenses; the worksheet is therefore split into Personnel and Non-labor sections.
4. **Capital Expenses.** This worksheet is used to submit requests for capital purchases like furniture, equipment, information technology, vehicles and so on. It is only used if the agency does not have a separate capital improvement plan; see section 5.4 of the Toolkit for more information on developing a long-range capital improvement plan.

Collectively, the worksheets may appear lengthy but in practice most people will only have to fill out a few lines on each page and will be able to skip some sections entirely. All efforts have been made to provide worksheets that are as easy as possible to fill out and submit.

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All of the budget worksheets are available in computerized form within one Microsoft Excel file. People should be encouraged to fill out the worksheets electronically rather than on paper for several reasons:

- It is easier to make changes to the electronic copy and simply print updated versions, rather than having to re-write or re-type entire worksheets;
- Features have been built into the electronic worksheets to save you time, such as automatically putting your program/department name on each worksheet after you enter it once and adding up all annual totals for you;
- Copies can be made quickly and easily, and the final worksheets can be sent quickly; and
- Using the electronic versions will save many administrative hours since there is no need to re-enter all of the information on the worksheet in order to compute budget figures.

The Excel file has a separate tab for each of the four budget worksheets. Sections to be filled out are shown in light blue; all other sections should not be changed in order to preserve the formatting and calculations built into the worksheets.

There are two additional tabs contained in the Excel file. One, called Other Assumptions, will be completed by Finance or executive staff in order to convert the information from the other budget worksheets into a complete account-level budget by month. The other tab, called Full Budget, shows the results of the complete account-level budget.

G-1 Goals Worksheet

Goals are clear, concise statements of what should be accomplished in the future. Well-defined goals that are actively pursued and constantly reinforced can contribute greatly to the success of a program or organization. Just some of the benefits that can come from setting goals and then managing to those goals are:

- **Clarity.** Goals reinforce strategic directions, making them clearer and thus easier to pursue. Strategies articulate what the organization is going to do, whereas goals frame things in terms of what is going to be achieved.
- **Motivation.** Goals help everyone rally around a common agenda. They also can make day-to-day activities more meaningful by showing how these activities are directly connected to being more successful in the long run.
- **Prioritization.** Work can be organized around achieving the goals. Goals inherently establish priorities, making it clearer what is most important to do. Focusing on goals helps to control the natural temptation to do too much and get spread too thin.
- **Accountability.** When goals are set, it is possible to measure progress against the goals and determine whether or not goals are achieved.

A picture of the Goals worksheet is shown below.

FISCAL YEAR _____ BUDGET: GOALS WORKSHEET

Program/Department: Prepared by:
Date:

1. Describe the overall goals for your program or department. What are the most important things to be accomplished in the next fiscal year?

2. This program/department is expected to (check one):

- Grow
- Stay about the same size as the current year
- Shrink

Why?

3. What other changes do you foresee next year that will affect your budget?

Instructions for completing the worksheet

Start by entering the program or department name, your name (on the “Prepared by” line), and the date. If you use the electronic version of the worksheet, this information will be automatically copied to the rest of the budget worksheets.

There are only three items to fill out, but they are extremely important to the rest of the budget. The three items are:

Describe the overall goals for your program or department – List the most important things that your program/department expects to accomplish during the next fiscal year. See the “Suggestions for Developing Goals” section later in these guidelines for information about how to write meaningful goals. You can also use this section to provide a short narrative about the future plans or direction of your program/department.

This program/department is expected to – Check only one of the three boxes to indicate whether you expect your program/department to grow, stay about the same size, or shrink during the next fiscal year. On the electronic worksheet, click inside a box to check it; click again to remove the check mark. Then, use the box labeled “Why?” to provide a brief explanation of your thought process or rationale as to why the program/department will grow, shrink, or stay about the same size.

What other changes do you foresee next year that will affect your budget – This is an optional item. Use this space to explain any special trends or circumstances you are aware of that may impact your program/department during the next fiscal year. For example, this would be a good place to describe changes you are seeing in the kinds of clients being served by your program, changes in how referrals are being made to your program, or shifts in how funders appear to be viewing the services.

If you are using the electronic version of the worksheet, simply click inside the light blue boxes to enter information. If you run out of room inside the box, attach additional sheets as needed to complete the item. Be sure to put the program/department name on all additional sheets.

Suggestions for developing goals

Goals come in many shapes and sizes. What is most important is that the goals are agreed to, they are universally understood, and there is a genuine commitment to reaching them. In other words, they must be meaningful to people.

In the budget process, you are being asked to develop goals for a one year time period – the next fiscal year - articulating what you are committed to accomplishing with the next year. These one-year goals can also be linked to longer-range goals that describe where you see your program or department going over a period of several years.

Highly effective goals are SMART. That is, they are defined in a manner that is:

Specific	The goal is stated in precise, unambiguous terms. Different people reading the goal are likely to get the same understanding of what needs to be achieved.
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Measurable	It is possible to clearly determine whether or not the goal was achieved. Progress toward reaching the goal can also be evaluated.
Agreed to	Consensus exists within your program or department that the goal is worth pursuing. People are committed to achieving the goal and are willing to be held accountable in doing their part toward the goal.
Realistic	It is possible to achieve the goal as stated. This does not mean that it will be easy, just that it is believable (even if some leaps of faith must be taken).
Time-based	There is a clear time frame within which the goal should be achieved, stated in a number of months or with a specific date by which the goal should be reached.

Some important issues to consider when setting goals include:

- Are community or client needs changing? Note that “client” could be an internal customer at the agency; for example, all board and staff members would be customers of the Finance function. If community or client needs are changing, how will it impact your activities?
- Are there significant trends or expected changes in the external environment – funding, regulations, and partnerships with other organizations in particular – that need to be addressed?
- What opportunities exist to improve services? Improvements can come in many forms such as producing better outcomes for clients, making services more accessible and user-friendly to clients, and making services more efficient and/or cost-effective.
- Are there significant trends or expected changes in the internal environment at the organization in terms of facilities, staffing, equipment, and so on that impact your operations?

Other characteristics of effective goals to consider, along with some pitfalls to avoid when setting goals are:

- Stay focused. Resist the temptation to set a lot of goals, but rather set a few goals that will make a dramatic impact on the success of your program or department and the services it can provide.
- Be sure that your program or department-level goals fit with the overall operating goals adopted by the organization. Few things cause more frustration and wasted effort than having some people work toward goals in one direction while others implement strategies that pull in an opposing direction.
- Not all goals have to use the same timeframe. Actually, it is often best to have goals with varying timeframes, such as one goal that can be reached within a few months, a couple that will take six to nine months, and perhaps a couple that will take a year or more. Reaching the shorter-term goals can be highly motivating to push ahead on the longer-term items.

- Think global; try not to be too narrow or limited in setting goals. A common pitfall in goal setting is that individuals push hard for “pet projects” or causes that really represent a minor issue rather than taking a big picture view of what achievements will substantially enhance the organization and the clients it serves.

G-2 Volume and Income Worksheet

The Volume and Income worksheet only applies to programs/departments that generate income directly, have income assigned to them (such as from grants or special events), or have specific measures of activity or volume that are being tracked. Supervisors and managers for most non-income producing areas should skip this worksheet.

The worksheet is divided into two sections, one for unit of service volume and one for income. A “unit of service” is a measure of activity for your program. Most units of service depict the volume of client services. Examples include hours of counseling, number of parent education classes, hours or number of play group activities, and number of people assisted with health insurance needs. For budgeting purposes, it is critical to define units of service that (a) best describe the services or activities of your area, and (b) are most closely related to changes in income and expenses. A picture of each section follows

FISCAL YEAR _____ BUDGET: VOLUME AND INCOME WORKSHEET

Program/Department: _____

Prepared by: _____

Date: _____

UNITS OF SERVICE

Unit of Service Description	Total Volume for Year	Breakdown of Projected Volume by Month												
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
	0													
Rationale:														
	0													
Rationale:														
	0													
Rationale:														
	0													
Rationale:														
	0													
Rationale:														

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INCOME

1. Income Tied to Unit of Service Volume

Unit of Service Description	Average Revenue per Unit	% Not Collect- ible	Explanation of Any Projected Changes to Average Revenue per Unit or % Uncollectible

2. Income NOT Tied to Unit of Service Volume, Already Assured/Guaranteed

Type of Income	Source and Purpose	Amount	Timing and Other Notes
Grants/Contracts			
Grants/Contracts			
Grants/Contracts			
Grants/Contracts			
Donations			
Donations			
Special Events			
Other			

3. Income NOT Tied to Unit of Service Volume and NOT Already Assured/Guaranteed

Type of Income	Source and Purpose	Amount	Probability %	Timing and Other Notes
Grants/Contracts				
Grants/Contracts				
Grants/Contracts				
Grants/Contracts				
Grants/Contracts				
Donations				
Donations				
Donations				
Special Events				
Special Events				
Other				
Other				
Other				

Instructions for completing the worksheet

There are three things to be completed in the Unit of Service section:

Unit of Service Description – Enter a short description for each unit of service for your element. Examples: Counseling Hours, Parent Education Classes. It does not matter if you

use upper or lower case, but you must use exactly the same spelling on all other worksheets when referring to the units of service. The worksheet allows up to five different units of service to be entered for each program. Also, the units of service can be different for each program. Leave blank any lines that are not needed.

Breakdown of Projected Volume by Month – For each unit of service, enter the number of units, i.e. the level of service volume, you expected to occur in each month in the next fiscal year. If you are using the electronic worksheet, the annual totals will be automatically computed; otherwise, add up the monthly values and enter the total volume projected for the next fiscal year.

Rationale – For each unit of service, give a short narrative explanation of how you came up with your volume projections and why you believe the projections are reasonable (not too high or too low). The explanations should be descriptive but do not need to be long. However, you may attach additional sheets as necessary or add more comments in any of the Rationale boxes that are next to unit of service description lines not being used.

The Income section of the worksheet is intended only for programs that have revenues recorded directly to them. If a program has activity volume but no revenues, fill out the Unit of Service section but leave the Income section blank.

The Income section is organized into three parts: income tied to unit of service volume such as program service fees, “fixed” income that is already assured such as grants/contracts for next year that have already been approved, and income that is not yet guaranteed but reasonably likely to be received. Instructions for each part are provided below.

Income Tied to Unit of Service Volume

Unit of Service Description – List all of the units of service entered on the first page of this worksheet. If you are using the electronic worksheet, these will be entered for you automatically.

Average Revenue per Unit – Calculate and enter the fees or income generated on the average from each unit performed. For example, if the unit of service is Counseling Hours, enter the average charge for an hour of counseling services. If there are multiple payers for services, such as having a combination of payments from different managed care and/or government sources, develop a weighted average charge per unit. Example: if fees are \$30 per hour when a client pays and \$20 per hour when a government agency pays, and roughly 40% of income is from client fees and the other 60% is from the government, the average charge per unit would be $(\$30 \text{ per client hour} * 40\%) + (\$20 \text{ per government hour} * 60\%) = \24.00 .

% Not Collectible – For many fee-based services, the amount billed will not always be paid, or at least paid in full. The difference between the amount billed and the amount ultimately paid, despite our best efforts at collections, is considered to be “uncollectible.” Enter the percentage of total revenues for each unit of service that you anticipate will not be collected. If you believe all revenues will be collected, enter 0.

Explanation of Any Projected Changes to Average Revenue per Unit or % Uncollectible – If you believe that the average revenue per unit or the percentage of revenues that cannot be collected will either increase or decrease during the next fiscal year, enter a brief explanation of the nature of the change and when you expected it to occur. Example:

“Revenue per hour scheduled to increase by \$4.00 on 1/1/08 based on information received from third-party payers.”

Income NOT Tied to Unit of Service Volume, Already Assured/Guaranteed

As the caption suggests, this section is used to list sources of income that are not linked to service volumes and that have already been received or otherwise guaranteed. Grants that have been approved by the funder should be listed in this section even if the cash has not received yet. However, grants that you have applied for but have not received notification should be listed in section 3 on the last page of the Volume and Income worksheet.

Source and Purpose – List each funding source separately, matching the funding source to the appropriate type of income shown in the leftmost column, and give a brief description if the funding is for a specific purpose. If the funding is not tied to a specific use, enter “Unrestricted”. Examples: “XYZ Foundation – Soundings general program support”, “Community Foundation – Unrestricted”.

Amount – Enter the total dollar amount to be received during the next fiscal year.

Timing and Other Notes – Enter the month and year in which the income is expected to be received. If the income will arrive over multiple months, describe when and how it will be received (examples: “quarterly installments starting November 2007”, “expected to be received 50% in March 2008 and 50% in April 2008”). You can also use this space to provide other information about the funding source that you think could affect the budget.

Income NOT Tied to Unit of Service Volume and NOT Already Assured/Guaranteed

This section is used to list sources of income that are not linked to service volumes and where there is still some uncertainty about if the income will be received or how much will be received. Use this section to enter income projections from grants that have been submitted but not yet approved, other grants that you expect to apply for next year, special events scheduled for next year, and any other source of income that you reasonably believe will be generated for your program in the next fiscal year.

Most of the items are the same as the previous section and should be filled out the same way. There is one additional column to complete:

Probability % - Enter your best estimate of the likelihood that the income will be received. For example, if the item involves a grant that has been submitted but not approved and you have consistently received funding from the same source before and expect that the new grant application will be approved, you might enter 90% or even 100%. Conversely, if there is a new funding source you will be pursuing next year that involves a lot of uncertainty, the probability might be 50% or less.

Guidelines for volume and income forecasts

Suggestions for estimating the level of volume by month for the next year are:

- Start by looking at what you put on the Goals worksheet, and think about the implications of the goals on volume for each unit of service. Is the program growing, expected to remain stable, or shrinking? By how much? Why? This analysis will give

you a better perspective on how next year's activity levels are likely to compare to the current year's levels.

- Look closely at historical data and trends on service volumes. Try to understand the reasons behind the trends. If volume jumped or dropped in a certain time period, is there a rational explanation or just a temporary and abnormal blip? At the same time, don't automatically assume that future volume levels will match the historical levels.
- Look at the seasonal patterns in your historical volume data, i.e. how activity goes up or down depending on the month of the year, and think about whether those patterns are likely to continue next year. It is important to reflect seasonal variations in unit of service volume on the budget worksheet. At the same time, if volume is expected to stay basically constant throughout the year, you can enter the same amount for each month.
- Look at where your clients are coming from, including how they are being referred to your program. Are there new sources of referrals that can be tapped that are likely to increase activity levels? Are some established sources of referrals starting to send clients to other agencies? If so, can the pattern be reversed?
- Finally, look at the capacity of your program and the likelihood of being able to change staffing levels and other factors to handle a different activity level. It may not make sense to project a 50% increase in volume if there is not space available to handle more clients or if the increase will require hiring multiple new staff with specialized skills that have been very hard to find in the past.

Additional suggestions for completing the Income portions of the worksheet are:

- For income tied to unit of service volume, an initial average charge per unit can be derived for existing programs by dividing total current year-to-date program service fee revenue by the total year-to-date unit of service volume.
- Enter all non-fee funding that has already been approved into section 2 of the Income portion of the worksheet and enter all funding that has already been applied for but not yet approved into section 3 of the Income area. This gives you a base to work from.
- Fill in the rest of the income picture by using your experience and historical data to estimate additional income from as-yet unidentified sources, adding these estimates to section 3 of the Income area. For example, your experience may show that the program always ends up getting at least \$15,000 from various sources during the year that could not be anticipated at the beginning of the year. Use this experience as a starting point to think about the likelihood of the historical figures going up or down, estimate a total level of additional income from as-yet unidentified sources, then think about how to classify that income into the various categories (Grants/Contracts, Donations, Other). The classification by type of income is not nearly as important as the accuracy of the total dollar amount of income that is projected.

G-3 Operating Expense Worksheet

The Operating Expense worksheet is used to submit information for all expenditures for which a program or department manager/supervisor is directly responsible. Shared costs, such as insurance covering the entire agency, are usually budgeted in a central manner such as by a finance or executive staff person, and are not included in the budget information submitted by a program manager/supervisor.

The worksheet covers both personnel (staffing) costs and non-labor expenses. Pictures of the worksheet follow, split into two separate sections with one section for personnel costs and another section for non-labor costs.

FISCAL YEAR _____ BUDGET: OPERATING EXPENSE WORKSHEET

Program/Department: _____

Prepared by: _____

Date: _____

PERSONNEL COSTS

Job Title/ Position Description	Average Annual Salary	Current # of FTEs	Proposed Changes in Staffing Levels (FTEs) During the Fiscal Year												
			Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Totals		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Rationale, including justification for any new positions requested:

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NON-LABOR COSTS

Type of Expense	Total for Year	Breakdown by Month											
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
7010 Program-related contracts	0												
7020 Grants to other agencies	0												
7040 Awards/grants to individuals	0												
7050 Specific assistance-indiv.	0												
7510 Fundraising fees	0												
7520 Accounting fees	0												
7530 Legal fees	0												
7540 Professional fees-other	0												
7550 Temporary help	0												
8110 Supplies	0												
8130 Telephone	0												
8140 Postage & shipping	0												
8150 Mailing services	0												
8170 Printing & copying	0												
8180 Books & subscriptions	0												
8190 In-house publications	0												
8210 Rent & other occupancy	0												
8220 Utilities	0												
8230 Real estate taxes	0												
8240 Personal property taxes	0												
8250 Mortgage interest	0												
8260 Equipment rental & maint.	0												
8270 Depreciation	0												
8310 Travel	0												
8320 Conferences & meetings	0												
8510 Interest-general	0												
8520 Insurance (non-employee)	0												
8530 Membership dues	0												
8540 Staff development	0												
8560 Outside computer services	0												
8570 Advertising expenses	0												
8590 Other expenses	0												

Explanations of non-labor costs over \$500: list account number and describe the nature of the expenses

Instructions for completing the worksheet

Use the Personnel section to enter information about staffing levels and costs. Do not be concerned with related employee benefit costs on this worksheet; those costs will be added based on your base salary expenses and other information entered on the Other Assumptions tab.

Job Position/Title Description – Enter the description of a staff position or job title, not the name of a particular staff person. Example: “Program Supervisor” and not “Mary Jones”.

Average Annual Salary – Enter the average annual salary currently being paid for the position, excluding benefits and estimated raises. If there are two or more people with the same job title, enter the average salary for these people (not their combined salaries).

Current # of FTEs – An “FTE” stands for Full Time Equivalent, which is defined as a 40 hour per week position. A 40 hour/week position would therefore be entered as 1.0, a 30 hour/week position entered as 0.75 (30 hours / 40 hour standard), a half-time position as 0.50 and so on. If there are two or more people with the same job title, add up the FTE figures for each person to get a total and enter the total. The number entered here should be the number of FTEs for each job title/position that are expected to be on staff as of the beginning of the fiscal year being budgeted. This means that you should not include any people that are leaving before the start of the fiscal year and not scheduled to be replaced by then, and conversely you should include new positions that are expected to be hired by the start of the fiscal year.

Proposed Changes in Staffing Levels (FTEs) During the Fiscal Year – Enter any projected changes in staffing levels in the month(s) in which the changes are expected to occur. Use positive numbers to represent an increase in staffing and negative numbers to reflect a decrease in staffing. All amounts should be entered as FTEs. Leave all months blank in which no changes in staffing levels are expected to occur. Example: if you are projecting to hire a full-time position in December and lose a half-time position in March, enter 1.0 in the December box, enter -0.5 in the March box, and leave all of the other months blank.

Rationale – In the box at the bottom of the page, give a narrative description of the reasons for any projected changes in staffing levels. It is particularly necessary to provide a thorough justification for any new staff positions that are being requested.

Use the Non-Labor Cost section to enter all non-personnel expenses that you will be directly responsible for. All costs in this section are entered as fixed dollar amounts.

Total for Year – If the expense amount should be spread evenly to the 12 months in the next fiscal year, you can simply enter the total cost for the year. For example, if \$1,000 a month will be spent on rent for a residential facility, you can enter \$12,000 for the annual total rather than having to enter the same amount in each month. However, if costs may be different from month to month, do NOT enter anything in the Total column but instead enter the estimated costs for each month.

Breakdown by Month – If costs will be incurred only in certain months of the year, or if the level of expenses will vary from month to month, then enter the estimated expenses for each month of the year (leaving blank any months in which no costs are expected). If you are

using the electronic version of the worksheet, the total for the year will be computed automatically as long as you had not previously made changes to the Total column.

Explanation of Non-labor Costs Over \$500 – This item is found at the end of the Operating Expense worksheet. For all types of expense that have a total budget over \$500, list the account number and give a brief description of the nature of the expenditures that are anticipated. It is also helpful to explain how the budget numbers were developed.

Guidelines for operating expense forecasts

Additional guidelines for completing the Operating Expense worksheet are:

- The starting point for preparing an expense budget is to look at the information on the Goals worksheet. The key question is, what resources are truly necessary to achieve the goals? A related question is then, are there any costs we are currently incurring that are not really adding value in achieving our goals, and therefore can be reduced or eliminated? The focus of any good budget is to align resources in order to reach the most important accomplishments desired in the next year.
- For programs, some (or possibly even all) of your expense budget can be pulled directly from grant agreements. Each grant that has been funded should have a budget attached to it, showing what costs are allowable under the grant. Incorporating this information into the budget worksheets can give you a good jump toward completing the operating expense budget.

not only need two computers but need them to be laptops that can be moved from site to site, then specify “laptop computers” because they cost more than desktop systems.

Cost per Unit – Enter the projected cost to purchase one of the requested items.

Quantity – Enter the number of units requested to be purchased. This should correspond to the item description contained in the first column. For example, if the item description is “office furniture” that includes three pieces of furniture, enter a quantity of 1 if this collection of furniture is only needed for one office.

Total Cost – Enter the cost per unit multiplied by the quantity. If you are using the electronic version of the worksheet, this will be computed for you automatically.

Requested Month of Purchase – Enter the month and year in which you are requesting the purchase to be made.

Rationale – Give a narrative explanation of how the purchase will help achieve project/element level goals or overall agency goals, and why it is truly necessary.

Guidelines for preparing capital expenditure requests

The most important considerations in preparing capital expenditure requests are:

- All requests must be directly linked to your program/department goals as described on the Goals worksheet or to the overall operating goals for the organization. Capital expenditure requests are sometimes treated by people as an opportunity to ask for anything and everything, almost like a Christmas list. A way to guard against this situation is to evaluate each request to see if it really addresses the good of the program or department and the good of the organization as a whole. Take the time to show why each expenditure is necessary and valuable!
- Think about funding sources for capital expenditures. Where will the money come from to make the purchase? If the funding has already been received or approved through a grant, be sure to indicate this on the worksheet. If you believe that funding could be obtained from a particular source, check to see if that funding source is reflected on the Volume and Income worksheet. If no funding options appear to be available for the item, reevaluate whether it should be included on the worksheet.

G-5 Other Assumptions Worksheet

The Other Assumptions worksheet contains detailed or technical information needed to produce a budget that is usually handled by the lead financial staff person. These budget parameters are placed on a separate worksheet so that program/department managers do not have to deal with these technicalities. A picture of the worksheet is shown below.

FISCAL YEAR _____ BUDGET: OTHER ASSUMPTIONS

Program/Department: _____

Prepared by: _____

Date: _____

FOR FINANCE USE ONLY. This worksheet is used to enter additional assumptions needed to translate the information from the other worksheets into a general ledger account level budget by month, as well to add in other costs like fringe benefits that can be estimated more accurately by the Finance function.

INCOME

1. Overrides to Average Revenue per Unit of Service by Month

Unit of Service Description	Average Revenue Per Unit	Revenue per Unit of Service by Month											
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

2. Verification of Total Revenue Tied to Unit of Service Volume

Unit of Service Description	Total Revenue	Revenue by Month											
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
Totals - Revenue	0	0	0	0	0	0	0	0	0	0	0	0	0

Unit of Service Description	Total Reserve	Reserve for Uncollectible Accounts by Month											
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0
Totals - Uncollectible	0	0	0	0	0	0	0	0	0	0	0	0	0

3. Percentage Allocation of Fee-Based Income to General Ledger Accounts

General Ledger Account	% of Revenue
5010 Agency (government) service fees	
5020 Federal contracts/service fees	
5030 State contracts/service fees	
5040 Local government contracts/service fees	
5050 Medicare/Medicaid payments	
5180 Program service fees (non-government)	
5210 Membership dues-individual	
5220 Assessments and dues-organizations	

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4. Allocation of Grants/Contracts Income to General Ledger Accounts and Months

General Ledger Account	Total for Year	Projected Income by Month											
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
4210 Corporate grants	0												
4230 Foundation grants	0												
4250 Nonprofit org grants	0												
4520 Federal grants	0												
4530 State grants	0												
4540 Local gov't grants	0												

5. Allocation of Donations to General Ledger Accounts and Months

General Ledger Account	Total for Year	Projected Income by Month											
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
4010 Individual contributions	0												
4020 Corporate contributions	0												
4070 Legacies & bequests	0												
4110 Donated services	0												
4130 Donated use of facilities	0												
4140 Gifts in kind - goods	0												
4410 United Way contrib.	0												

6. Allocation of Special Events to General Ledger Accounts and Months

General Ledger Account	Total for Year	Projected Income by Month											
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
5810 Special events, non-gift	0												
5820 Special events, gift rev.	0												

7. Allocation of Other Income to General Ledger Accounts and Months

General Ledger Account	Total for Year	Projected Income by Month											
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
5310 Interest income	0												
5330 Real estate rent income	0												
5350 Other property rent incom	0												
5450 Advertising revenue	0												
5490 Miscellaneous revenue	0												

PERSONNEL COSTS

1. Cumulative Salary Adjustments by Month

Average raise %

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
% of total salary base to receive raises												
Raises as a % of total salaries	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

2. Fringe Benefit Cost Assumptions

General Ledger Account	Standard %	Adjustments by Month											
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
7230 Retirement plan costs		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
7240 Benefits (non-retiremt)		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
7250 Payroll taxes		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

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3. Verification of Calculations for Base Personnel Costs (excludes raises and benefits)

Job Position/ Title Description	Total for Year	Calculated Expense by Month												
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Account 7220: Salaries & Wages	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Salaries & Wages	0	0	0	0	0	0	0	0	0	0	0	0	0	0

NON-LABOR COSTS

1. Non-Labor Expense Accounts Not Appearing on Budget Worksheets

General Ledger Account	Total for Year	Expense by Month												
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
8620 Sales taxes	0													
8630 Unrelated business tax	0													
8650 Taxes-other	0													
8660 Fines and penalties	0													

Instructions for completing the worksheet

As noted earlier, this worksheet should be completed by the lead finance staff person or another designated person with sufficient knowledge of accounting information. As a general guideline, it should not be completed by program/department personnel that do not have an in-depth understanding of the organization’s finances.

The worksheet is split into three sections: Income, Personnel Costs and Non-Labor costs.

Instructions for completing the Income section:

Overrides to Average Revenue per Unit of Service by Month – The unit of service descriptions and average revenue per unit entered on the Volume and Income worksheet will be automatically copied here, with the average revenue per unit in each month also set. If the information on the Volume and Income worksheet suggests that the average revenue per unit may change during the year, you can manually enter new revenue per unit values in the month(s) affected.

Verification of Total Revenue Tied to Unit of Service Volume – This section shows the total revenue and reserve for uncollectible accounts generated from each unit of service. Review these figures for reasonableness, and also to verify that no Excel error values such as #NA or #VALUE appear. If error values are shown, it generally means that either the spelling (including capitalization) of the Unit of Service Description entered on the Income worksheet is different than the spelling on the Volume worksheet, or that an Excel spreadsheet formula was corrupted.

Percentage Allocation of Fee-Based Income to General Ledger Accounts – Enter percentages to show how the total revenue tied to unit of service volume should be split between the various general ledger accounts. Enter all amounts as percentages, e.g. 80% rather than 0.80. The total of all of the percentages should add up to 100%.

Allocation of Grants/Contracts Income to General Ledger Accounts and Months –

Allocation of Donations to General Ledger Accounts and Months –

Allocation of Special Events to General Ledger Accounts and Months –

Allocation of Other Income to General Ledger Accounts and Months – All of these sections work the same way, and are used to manually enter the income budget figures by month for revenues not tied to unit of service volume. Sections 2 and 3 of the Income worksheet show the total income by funding source that is projected from grants, donations and so on, along with brief narrative descriptions of the expected timing of the income. The information entered on the Income worksheet should be used as the basis to decide which general ledger account to use for each type of income and how to apportion the projected income to the months.

Instructions for completing the Personnel Costs section:

Cumulative Salary Adjustments by Month – The approach used by many agencies is to provide staff with raises on their anniversary date of employment. To model this approach, first enter the average or standard raise percentage that should be budgeted for each staff position in the program/department (e.g. 3.0%). Then, for each month of the fiscal year being budgeted, enter the cumulative percentage of the total salary expense for the program/department that will have had their anniversary dates by that month. Example: Assume that a program has three employees and that the organization uses a calendar year for its fiscal year. Employee 1 accounts for 25% of the total salaries for the element and has their anniversary date in March. Employee 2 accounts for 40% of the total salaries and has an anniversary date in May. Employee 3 accounts for the remaining 35% of salaries with an anniversary date in September. You would enter 0 for January and February (no employees with an anniversary date yet), 25% in March and April, 65% in May through August (the combination of employees 1 and 2), and 100% for September through December.

Fringe Benefit Cost Assumptions – In the “Standard %” column, enter the average percentage of total salaries to use in computing retirement plan, non-retirement benefit (including all medical, dental and other insurance costs paid for employees) and payroll tax costs. The percentages entered here will be automatically copied to each of the months in the year. You can then manually override the monthly percentages if necessary. For example, if a health insurance cost increase is expected in May, you may want to enter a higher percentage for fringe benefit costs in May through September.

Verification of Calculations for Base Personnel Costs – This section shows the total base salary costs, EXCLUDING raises and benefits, that were computed based on the information entered in the budget worksheets. Review these figures for reasonableness, and also to verify that no Excel error values such as #NA or #VALUE appear. If error values are shown, it generally means that an Excel spreadsheet formula was corrupted.

Instructions for completing the Non-Labor Costs section:

Non-labor Expense Accounts Not Appearing on Budget Worksheets – This section is used to manually enter budget amounts for a few general ledger accounts that do not appear anywhere on the Operating Expenses worksheet.

G-6 Full Budget Tab

The Full Budget tab uses the information entered on the other worksheets to compute a complete budget by general ledger account for a program or department. No additional information needs to be entered on this worksheet, except that you can enter a program/department code and the status of the budget (e.g. First Draft, Second Draft, Final) at the top of the page for easier reference.

A picture of the worksheet is shown below.

FISCAL YEAR _____ BUDGET: BUDGET BY ACCOUNT

Dept Code: _____ Name: _____ Status: First Draft / Second Draft / Third Draft / Final
 Date: _____

Account	Total for Year	Breakdown by Month											
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Revenues													
4010 Individual contributions	0	0	0	0	0	0	0	0	0	0	0	0	0
4020 Corporate contributions	0	0	0	0	0	0	0	0	0	0	0	0	0
4070 Legacies & bequests	0	0	0	0	0	0	0	0	0	0	0	0	0
4110 Donated services	0	0	0	0	0	0	0	0	0	0	0	0	0
4130 Donated use of facilities	0	0	0	0	0	0	0	0	0	0	0	0	0
4140 Gifts in kind - goods	0	0	0	0	0	0	0	0	0	0	0	0	0
4210 Corporate grants	0	0	0	0	0	0	0	0	0	0	0	0	0
4230 Foundation grants	0	0	0	0	0	0	0	0	0	0	0	0	0
4250 Nonprofit org grants	0	0	0	0	0	0	0	0	0	0	0	0	0
4410 United Way contrib.	0	0	0	0	0	0	0	0	0	0	0	0	0
4520 Federal grants	0	0	0	0	0	0	0	0	0	0	0	0	0
4530 State grants	0	0	0	0	0	0	0	0	0	0	0	0	0
4540 Local gov't grants	0	0	0	0	0	0	0	0	0	0	0	0	0
5010 Agency (government) servi	0	0	0	0	0	0	0	0	0	0	0	0	0
5020 Federal contracts/service f	0	0	0	0	0	0	0	0	0	0	0	0	0
5030 State contracts/service fee	0	0	0	0	0	0	0	0	0	0	0	0	0
5040 Local government contract	0	0	0	0	0	0	0	0	0	0	0	0	0
5050 Medicare/Medicaid paymer	0	0	0	0	0	0	0	0	0	0	0	0	0
5180 Program service fees (non-	0	0	0	0	0	0	0	0	0	0	0	0	0
5210 Membership dues-individu	0	0	0	0	0	0	0	0	0	0	0	0	0
5220 Assessments and dues-org	0	0	0	0	0	0	0	0	0	0	0	0	0
5310 Interest income	0	0	0	0	0	0	0	0	0	0	0	0	0
5330 Real estate rent income	0	0	0	0	0	0	0	0	0	0	0	0	0
5350 Other property rent income	0	0	0	0	0	0	0	0	0	0	0	0	0
5450 Advertising revenue	0	0	0	0	0	0	0	0	0	0	0	0	0
5490 Miscellaneous revenue	0	0	0	0	0	0	0	0	0	0	0	0	0
5810 Special events, non-gift	0	0	0	0	0	0	0	0	0	0	0	0	0
5820 Special events, gift rev.	0	0	0	0	0	0	0	0	0	0	0	0	0
Total revenues	0	0	0	0	0	0	0	0	0	0	0	0	0

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FISCAL YEAR _____ BUDGET: BUDGET BY ACCOUNT

Dept Code: _____ Name: _____

Status: First Draft / Second Draft / Third Draft / Final

Date: _____

Account	Total for Year	Breakdown by Month											
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Expenses													
7010 Program-related contracts	0	0	0	0	0	0	0	0	0	0	0	0	0
7020 Grants to other agencies	0	0	0	0	0	0	0	0	0	0	0	0	0
7040 Awards/grants to individual	0	0	0	0	0	0	0	0	0	0	0	0	0
7050 Specific assistance-indiv.	0	0	0	0	0	0	0	0	0	0	0	0	0
7220 Salaries & Wages	0	0	0	0	0	0	0	0	0	0	0	0	0
7230 Retirement plan costs	0	0	0	0	0	0	0	0	0	0	0	0	0
7240 Benefits (non-retiremt)	0	0	0	0	0	0	0	0	0	0	0	0	0
7250 Payroll taxes	0	0	0	0	0	0	0	0	0	0	0	0	0
7510 Fundraising fees	0	0	0	0	0	0	0	0	0	0	0	0	0
7520 Accounting fees	0	0	0	0	0	0	0	0	0	0	0	0	0
7530 Legal fees	0	0	0	0	0	0	0	0	0	0	0	0	0
7540 Professional fees-other	0	0	0	0	0	0	0	0	0	0	0	0	0
7550 Temporary help	0	0	0	0	0	0	0	0	0	0	0	0	0
8110 Supplies	0	0	0	0	0	0	0	0	0	0	0	0	0
8130 Telephone	0	0	0	0	0	0	0	0	0	0	0	0	0
8140 Postage & shipping	0	0	0	0	0	0	0	0	0	0	0	0	0
8150 Mailing services	0	0	0	0	0	0	0	0	0	0	0	0	0
8170 Printing & copying	0	0	0	0	0	0	0	0	0	0	0	0	0
8180 Books & subscriptions	0	0	0	0	0	0	0	0	0	0	0	0	0
8190 In-house publications	0	0	0	0	0	0	0	0	0	0	0	0	0
8210 Rent & other occupancy	0	0	0	0	0	0	0	0	0	0	0	0	0
8220 Utilities	0	0	0	0	0	0	0	0	0	0	0	0	0
8230 Real estate taxes	0	0	0	0	0	0	0	0	0	0	0	0	0
8240 Personal property taxes	0	0	0	0	0	0	0	0	0	0	0	0	0
8250 Mortgage interest	0	0	0	0	0	0	0	0	0	0	0	0	0
8260 Equipment rental & maint.	0	0	0	0	0	0	0	0	0	0	0	0	0
8270 Depreciation	0	0	0	0	0	0	0	0	0	0	0	0	0
8310 Travel	0	0	0	0	0	0	0	0	0	0	0	0	0
8320 Conferences & meetings	0	0	0	0	0	0	0	0	0	0	0	0	0
8510 Interest-general	0	0	0	0	0	0	0	0	0	0	0	0	0
8520 Insurance (non-employee)	0	0	0	0	0	0	0	0	0	0	0	0	0
8530 Membership dues	0	0	0	0	0	0	0	0	0	0	0	0	0
8540 Staff development	0	0	0	0	0	0	0	0	0	0	0	0	0
8560 Outside computer services	0	0	0	0	0	0	0	0	0	0	0	0	0
8570 Advertising expenses	0	0	0	0	0	0	0	0	0	0	0	0	0
8590 Other expenses	0	0	0	0	0	0	0	0	0	0	0	0	0
8610 Bad debt expense	0	0	0	0	0	0	0	0	0	0	0	0	0
8620 Sales taxes	0	0	0	0	0	0	0	0	0	0	0	0	0
8630 Unrelated business tax	0	0	0	0	0	0	0	0	0	0	0	0	0
8650 Taxes-other	0	0	0	0	0	0	0	0	0	0	0	0	0
8660 Fines and penalties	0	0	0	0	0	0	0	0	0	0	0	0	0
Total expenses	0	0	0	0	0	0	0	0	0	0	0	0	0
Summary													
Net income over (under) costs	0	0	0	0	0	0	0	0	0	0	0	0	0

Appendix H: Capital Improvement Budget Template

How to use the Capital Improvement Budget Template

1. Engage staff and board members in identifying future capital improvement needs for an agreed-upon time horizon (one year, five years, ten years, etc.). The template is formatted to plan for up to five years. Identify capital needs by looking at the strategic plan and anticipating future capital improvements necessary to achieve strategic goals, as well as evaluating the condition of existing assets to determine if any assets will require major renovation or replacement.
2. For each future capital improvement need, evaluate options for addressing the need and select the best available option. This will require research to obtain accurate cost estimates for (a) purchase or development of the capital asset, and (b) ongoing operating costs that will be incurred as a result of the item, such as increases in maintenance and insurance costs. Once an option is selected as being the most cost-effective, document the findings for that option using the Line Item Justification worksheet provided with this tool. More guidance on this step is provided in the narrative of section 5.4 of the toolkit.
3. Incorporate all of the cost information for the individual capital improvements into the Capital Improvement Budget template in order to produce forecasted costs in both the “Capital Improvements to be Made” and “Operating Expense Impact of Capital Improvements” sections of the template. You may need to reformat the template to fit your specific asset categories and/or number of years being included in the forecast.
4. Engage staff and board members in analyzing potential sources of funding to cover the combined capital acquisition and ongoing operating costs. Make decisions about specific funding strategies and forecast the expected level and timing of funding from each source or strategy. Incorporate this information into the template under the “Analysis of Funding Sources” heading. If debt financing will be used as a source of funding, be sure to add the amount of annual interest expense associated with the debt to the “Operating Expense Impact” section.
5. Look at the summary at the end of the template to determine if sufficient funding is available to cover all projected costs. If not, continue the analysis to identify additional funding sources, scale back or eliminate lower priority capital improvements, or both until the amount of financing available matches the projected costs (or the amount of the shortfall can be taken from the accumulated reserves or net assets from past years, with board approval).

The templates were developed with the Microsoft Excel spreadsheet program. There are two tabs in the Excel file, one containing the capital improvement budget and the other with a sample form to use in preparing justifications for the individual capital asset line items contained on the budget. The samples on the following pages are pictures to show you what each tool looks like. The actual tools can be accessed on the companion CD.

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CAPITAL IMPROVEMENT BUDGET
Organization Name

Revised: MM/DD/YYYY

CAPITAL IMPROVEMENTS TO BE MADE

Asset Category Item Description	Estimated Capital Costs by Fiscal Year					Totals
	2007	2008	2009	2010	2011	
Land						
[add individual capital items]						\$0
[add individual capital items]						\$0
[add individual capital items]						\$0
Subtotal - Land	\$0	\$0	\$0	\$0	\$0	\$0
Buildings and Grounds						
[add individual capital items]						\$0
[add individual capital items]						\$0
[add individual capital items]						\$0
Subtotal - Building and Grounds	\$0	\$0	\$0	\$0	\$0	\$0
Leasehold Improvements						
[add individual capital items]						\$0
[add individual capital items]						\$0
[add individual capital items]						\$0
Subtotal - Leasehold Improvements	\$0	\$0	\$0	\$0	\$0	\$0
Furniture and Fixtures						
[add individual capital items]						\$0
[add individual capital items]						\$0
[add individual capital items]						\$0
Subtotal - Furniture and Fixtures	\$0	\$0	\$0	\$0	\$0	\$0
Equipment (Computer, Office and Other)						
[add individual capital items]						\$0
[add individual capital items]						\$0
[add individual capital items]						\$0
Subtotal - Equipment	\$0	\$0	\$0	\$0	\$0	\$0
Vehicles						
[add individual capital items]						\$0
[add individual capital items]						\$0
[add individual capital items]						\$0
Subtotal - Vehicles	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL CAPITAL IMPROVEMENTS	\$0	\$0	\$0	\$0	\$0	\$0

OPERATING EXPENSE IMPACT OF CAPITAL IMPROVEMENTS

Expense Category Item Description	Estimated Related Expenses by Fiscal Year					Totals
	2007	2008	2009	2010	2011	
Repairs and Maintenance						
Buildings and Grounds						\$0
Furniture and Fixtures						\$0
Equipment						\$0
Vehicles						\$0
Subtotal - Repairs & Maintenance	\$0	\$0	\$0	\$0	\$0	\$0
Insurance						
Land						\$0
Buildings and Grounds						\$0
Leasehold Improvements						\$0
Furniture and Fixtures						\$0
Equipment						\$0
Vehicles						\$0
Subtotal - Insurance	\$0	\$0	\$0	\$0	\$0	\$0
Governmental Fees and Taxes						
Property Taxes						\$0
Non-Capitalized Licenses and Permits						\$0
Vehicle Registration Fees						\$0

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CAPITAL IMPROVEMENT BUDGET
Organization Name

Revised: MM/DD/YYYY

CAPITAL IMPROVEMENTS TO BE MADE

Asset Category Item Description	Estimated Capital Costs by Fiscal Year					Totals
	2007	2008	2009	2010	2011	
Interest on Debt Financing						\$0
Other Operating Expense Impacts						
[list type of expense]						\$0
[list type of expense]						\$0
[list type of expense]						\$0
Subtotal - Other Expenses	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL OPERATING EXPENSE IMPACTS	\$0	\$0	\$0	\$0	\$0	\$0

ANALYSIS OF FUNDING SOURCES

Funding Category Item Description	Estimated Funding Available by Fiscal Year					Totals
	2007	2008	2009	2010	2011	
Grants and Contributions						
[add individual funding source]						\$0
[add individual funding source]						\$0
[add individual funding source]						\$0
Subtotal - Grants and Contributions	\$0	\$0	\$0	\$0	\$0	\$0
Sale of Property						
[add type of existing asset to be sold]						\$0
[add type of existing asset to be sold]						\$0
[add type of existing asset to be sold]						\$0
Subtotal - Sale of Property	\$0	\$0	\$0	\$0	\$0	\$0
Debt Financing						
[add type/description of debt planned]						\$0
[add type/description of debt planned]						\$0
Subtotal - Debt Financing	\$0	\$0	\$0	\$0	\$0	\$0
Net Operating Revenue To Be Used For Capital Improvements						\$0
Other Financing Sources						
[add individual funding source]						\$0
[add individual funding source]						\$0
[add individual funding source]						\$0
Subtotal - Other Financing Sources	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL FUNDING SOURCES	\$0	\$0	\$0	\$0	\$0	\$0

SUMMARY

	Fiscal Year					Totals
	2007	2008	2009	2010	2011	
Financing Required						
Total Capital Improvements	\$0	\$0	\$0	\$0	\$0	\$0
Total Operating Expense Impact	\$0	\$0	\$0	\$0	\$0	\$0
Total Financing Required	\$0	\$0	\$0	\$0	\$0	\$0
Funding Sources	\$0	\$0	\$0	\$0	\$0	\$0
Funding Over (Under) Requirements	\$0	\$0	\$0	\$0	\$0	\$0

CAPITAL IMPROVEMENT BUDGET - LINE ITEM JUSTIFICATION

Organization Name

Prepared by: _____

Date: _____

Asset Category:

Item Description:

Rationale for Capital Improvement (including projected impact on services):

Priority Level (1 = highest, 5 = lowest):

Capital Improvement Cost Details and Breakdown by Year:

Estimated Impact on Operating Costs:

First Year for Asset to be Placed Into Service:

Projected Impact if Capital Improvement is Delayed Beyond the Target Year

Appendix I: Financial Statement Examples

How to use the Financial Statement Examples

Since most accounting software programs offer pre-built reports that will produce each of the four financial statements required by nonprofit health and welfare organizations under Statement of Financial Accounting Standards (SFAS) 117, you are not likely to need to use the financial statement examples provided in this toolkit as templates to produce financial statements for the board and staff. However, if you do want to use the examples in this toolkit as templates for producing financial statements, you can do so with the following steps:

1. Add your organization name to the top of each financial statement.
2. Review your chart of accounts and make sure that all of your accounts can be mapped in a logical manner to one of the line items on the financial statements. All asset, liability and net asset accounts must be able to map to line items on the Statement of Financial Position. All revenue accounts must map to one of the line items on the Statement of Activities. All expense accounts must map to one of the line items on the Statement of Functional Expenses.
 - Rename line items to fit your organization. For example, on the Statement of Activities, if you do not need a line item for “service fees” in the revenue section but do need one for “membership fees” you can simply change the title on the template to match your agency’s needs.
 - If necessary, add line items on the financial statement templates to make sure all of your accounts can map to these statements.
 - You can also delete line items that are not applicable to your organization, but if you do so, be sure to verify that none of the formulas were “broken” in the process.
3. On the Statement of Functional Expenses, if your agency operates multiple major programs, it is recommended that you add a column for each program and change the “Program Services” column on the template to calculate a combined total of the expenses in the columns you added for individual programs. If you do this, you will need to change the page layout from Portrait to Landscape in order to get everything to fit on one page.

Save your changes. The templates should now be ready for you to enter numbers from your accounting system each month in order to produce financial statements that conform to SFAS 117 specifications.

The samples were developed with the Microsoft Excel spreadsheet program. There are four tabs in the Excel file, one for each financial statement, that have all of the necessary formulas built in to calculate the necessary subtotals and totals. The samples on the following pages are pictures to show you what each report looks like, one page per report. The actual templates can be accessed on the companion CD.

Organization Name
Statement of Financial Position

For Period Ending _____, 20__

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
ASSETS				
Cash				0
Short-term investments				0
Accounts receivable				0
Contributions receivable				0
Prepaid expenses				0
Other current assets				0
Total current assets	0	0	0	0
Fixed assets				0
Less: Accumulated depreciation				0
Other long-term assets				0
Total Assets	0	0	0	0
LIABILITIES AND NET ASSETS				
Accounts payable				0
Accrued liabilities				0
Unearned/deferred revenue				0
Short-term notes and loans payable				0
Other current liabilities				0
Total current liabilities	0	0	0	0
Long-term mortgages and loans payable				0
Capital leases				0
Other long-term liabilities				0
Total liabilities	0	0	0	0
Net assets				0
Total Liabilities and Net Assets	0	0	0	0

Organization Name

Statement of Activities

For Period _____, 20__ To _____, 20__

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES, GAINS AND SUPPORT				
Public Support:				
Government grants				0
Foundation and corporate grants				0
Donations				0
United Way				0
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Revenue:				
Service fees				0
Investment income				0
Other income				0
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Assets Released From Restrictions:				
Satisfaction of program restrictions				0
Satisfaction of time restrictions				0
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
 Total Revenues, Gains and Support	 0	 0	 0	 0
EXPENSES				
Program services				0
Administrative				0
Fund raising				0
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
 Total Expenses	 0	 0	 0	 0
CHANGE IN NET ASSETS	0	0	0	0
NET ASSETS AT BEGINNING OF YEAR				0
NET ASSETS AT END OF PERIOD	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

Organization Name

Statement of Functional Expenses

For Period _____, 20__ To _____, 20__

	<u>Program Services</u>	<u>Administrative</u>	<u>Fund Raising</u>	<u>Total</u>
Personnel				
Salaries - staff				0
Payroll taxes and employee benefits				0
Temporary help				0
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Grants, contracts and direct assistance				
Contracts, program-related				0
Grants and awards issued to others				0
Benefits paid to or for clients				0
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Facilities and equipment				
Rent, utilities and other occupancy costs				0
Equipment rental and maintenance				0
Real estate and property taxes				0
Depreciation				0
Donated facilities and equipment				0
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Travel and meetings				
Travel				0
Conferences, conventions and meetings				0
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Supplies, materials and non-labor services				
Supplies				0
Telephone and telecommunications				0
Online services				0
Postage and shipping				0
Printing and copying				0
Books, subscription and references				0
Donated supplies and materials				0
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Contracted services				
Fund raising fees				0
Accounting				0
Legal				0
Other professional services				0
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Other expenses				
Insurance				0
Membership dues				0
Staff development				0
Advertising				0
Bad debt expenses				0
Licenses and taxes				0
Other expenses				0
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL EXPENSES	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>0</u></u>	<u><u>0</u></u>

Organization Name
Statement of Cash Flows

For Period _____, 20__ To _____, 20__

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Cash flows from operating activities:				
Change in net assets				0
Adjustments to reconcile change in net assets to net cash from operations				
Adjustment not requiring cash outlay				
Depreciation expense				0
Change in operating assets & liabilities				
Accounts receivable				0
Contributions receivable				0
Prepaid expenses				0
Other accrued expenses				0
Accounts payable				0
Accrued liabilities				0
Net cash flows from operating activities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Cash flows from investing activities:				
Purchase of fixed assets				0
Sale of fixed assets				0
Net cash flows from investing activities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Cash flows from financing activities:				
Proceeds from loans and other debt				0
Payments on contracts payable				0
Payments on capitalized leases				0
Net cash flows from financing activities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net change in cash and cash equivalents	0	0	0	0
Cash and cash equivalents at start of year				0
Cash and cash equivalents at end of period	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

Appendix J: Budget-to-Actual Report Templates

How to use the Budget-to-Actual Report Templates

Many accounting software programs offer pre-built budget-to-actual reports, so you can just use the templates in this toolkit to help decide what you want your reports to look like and then adapt the reports in your accounting system accordingly. However, if you do want to use the examples in this toolkit as templates for producing budget-to-actual reports, you can do so with the following steps:

1. Decide on the format and level of detail you want to include on the reports for each target audience. Two sample formats are provided in the templates, one for a variation of a Statement of Activities that provides budget-to-actual information and another for a variation of a Statement of Functional Expenses containing budget-to-actual information. These are summary level reports that are appropriate for the board; they do not contain full line item (account level) detail. Typically, the Statement of Activities would go to the full board and the Statement of Functional Expenses might go to the Finance Committee, or perhaps the Chair and Treasurer. For the Executive Director, a more detailed version should be created that lists all of your individual revenue and expense accounts in the rows rather than the summarized groupings shown on the templates.
2. If you added or deleted any line items in order to customize the report formats to your organization, be sure to check all of the formulas in the Excel worksheet to ensure they are accurately calculating all subtotals and variances. Variances are calculated as (Actual – Budget) throughout both templates.
3. Add your organization name to the top of each report.

Save your changes. The templates should now be ready for you to enter numbers from your accounting system each month in order to produce budget-to-actual reports.

The samples were developed with the Microsoft Excel spreadsheet program. There are two tabs in the Excel file, one for each different sample report format, that have all of the necessary formulas built in to calculate the necessary subtotals and totals. The samples on the following pages are pictures to show you what each report looks like. The actual templates can be accessed on the companion CD.

Organization Name

Statement of Activities - Budget to Actual Comparison

For Period _____, 20__ To _____, 20__

	[MONTH/QUARTER TITLE]			FISCAL YEAR TO DATE		
	Actual	Budget	Variance	Actual	Budget	Variance
REVENUES, GAINS AND SUPPORT						
Public Support:						
Government grants			0			0
Foundation and corporate grants			0			0
Donations			0			0
United Way			0			0
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Revenue:						
Service fees			0			0
Investment income			0			0
Other income			0			0
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Assets Released From Restrictions			0			0
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Revenues, Gains and Support	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
EXPENSES						
Program services			0			0
Administrative			0			0
Fund raising			0			0
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Expenses	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
CHANGE IN NET ASSETS	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
NET ASSETS AT BEGINNING OF YEAR			0			0
NET ASSETS AT END OF PERIOD	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

Organization Name

Statement of Functional Expenses - Budget to Actual Comparison

For Period _____, 20__ To _____, 20__

	[MONTH/QUARTER TITLE]			FISCAL YEAR TO DATE		
	Actual	Budget	Variance	Actual	Budget	Variance
PROGRAM SERVICES						
Personnel			0			0
Grants, contracts and direct assistance			0			0
Facilities and equipment			0			0
Travel and meetings			0			0
Supplies, materials and non-labor services			0			0
Contracted services			0			0
Other expenses			0			0
Total Program Services	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
ADMINISTRATIVE						
Personnel			0			0
Grants, contracts and direct assistance			0			0
Facilities and equipment			0			0
Travel and meetings			0			0
Supplies, materials and non-labor services			0			0
Contracted services			0			0
Other expenses			0			0
Total Program Services	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
FUND RAISING						
Personnel			0			0
Grants, contracts and direct assistance			0			0
Facilities and equipment			0			0
Travel and meetings			0			0
Supplies, materials and non-labor services			0			0
Contracted services			0			0
Other expenses			0			0
Total Program Services	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL EXPENSES	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>