

Financial Questions Board Members Should Ask

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Source(s): The questions listed above are from the following sources:

- Financial Responsibilities of Nonprofit Boards, Andrew S. Lang, CPA, BoardSource, 2007
- Betty Ferreira CPA, CMA ReStructure Consulting www.restructure.ca 2013 and 2019

1. Some Questions to Ask Regarding Budget Planning and Budget Proposal Approval

1. Is our financial plan consistent with our strategic plan?
2. Do we have three reserves setup to help us with financial planning: emergency reserve (3 month minimum), capital reserve (for capital purchases), opportunity reserve (to pay for opportunities, unplanned items or to pay deficits on programs)
3. What is the financial target for each of the three reserves? What is the current amount in each reserve?
4. Do we use true and full cost accounting to cost out the true cost of programs/services?
5. What is the bottom-line financial position of each of our programs this year? How does this compare to last year?
6. What has been the historical revenue generation by funder? Has this declined, remained at the same level, or increased?
7. Do we know which programs produce a deficit?
8. Do we need to divest or restructure any programs that are running large deficits?
9. Which programs produce a surplus and therefore fund programs that produce a deficit?
10. Do we know how much it costs the organization to service funder requirements including administrative requirements, data collection, and funder reporting?
11. What is the extent to which this organization can cover our short-term debt? Can we meet our debt requirements this year?
12. Are we overly reliant on one or two funders for revenue?
13. Are our revenue streams stable and diverse?
14. How reliant are we on one or two sources of revenue?
15. How self-sufficient are we? How much of our revenue is from fee-for-service, fundraising, and social enterprise?
16. How secure is the funding and revenue generation for all programs and specifically for programs whose surplus revenue funds our other program(s)?
17. As most costs increase on an annual basis, are we projecting a surplus this year to assist us with cost increases we should expect in the following fiscal year?
18. Do we have sufficient reserves? Do we have at least 3 months reserve based on our current "burn rate" (monthly expenditure requirements)?
19. How much of the reserves are unrestricted liquid net assets that we can use to respond to strategic opportunities, internal/external threats, loss of funding?
20. Has the board adopted a formal policy for the establishment of reserves?
21. What is the extent that the organization can cover short and long-term debt?
22. Have we set an annual goal to accumulate a surplus for reserves this year?
23. What extent is the organization is financially sound and sustainable? How do we know that for sure?

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24. Is our cash flow projected to be adequate?
25. Do we need to amend the dates we receive funding to ensure that we do not have a cash flow crunch during the year?
26. Are our cash-flow projections reasonable, objective, and not overly optimistic (how accurate have past projections proved to be)?
27. Are we operating at break-even or at a loss this year? If so, what are the immediate plans to balance the budget?
28. Did we receive a written narrative budget proposal to accompany the proposed annual budget and that explains the budget? Does it outline the revenue anticipated for the year and any changes (increases or decreases) to each revenue source; does it outline if programs are running a deficit or surplus? Does it outline the budget goals and how they will be met? and Is it aligned with the directions in our strategic plan?
29. Has the organization had the capacity to provide salary increases to staff members in the past few years? If the organization is unable to do so, why? What actions should the organization take as a result?

Investments

30. Are we making sure that no board or staff member is individually responsible for selecting investments or receiving commissions or any type of finders fee on the organizations investments?
31. Are we satisfied with the performance our investments given the level of risk appropriate for those funds? What research was conducted prior to selecting the current investments? Is it time to reassess our investment portfolio?
32. Are our investments low-risk? Have we committed to a low-risk investment portfolio?
33. Are we satisfied with the performance our investments given the level of risk?

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2. Questions to Ask at Monthly Board Meetings Regarding Revenue and expenses

1. Do our financial report formats compare our budget to our actuals by month, quarter, year-to-date, and by annual budget? Do we have access to these financial reports at every board meeting? If no, why not? Does the Executive Director receive and analyze these financial reports monthly?
2. Do we know what our variances are by both percent and dollar terms, per revenue source, and by unrestricted and restricted revenues?
3. Do we have financial reports that identify projections for each revenue source and compare them to the actual revenue received?
4. Are our key sources of revenue increasing or decreasing? If they are decreasing, what are we doing about it? What are the recommendations from staff? Should we adjust our budget to ensure that we do not incur a deficit?
5. Are our key expenses, especially salaries/benefits under control?
6. Are we on track with our budget? Are we running a gain (surplus) or a loss?
7. Are we on track with our fundraising?
8. Does the Executive Director foresee any potential difficulties or challenges in meeting revenue generation goals?
9. Are we recovering costs from our funders?
10. Are staff members being paid in a timely manner? Are there any unpaid salaries to staff at this time?
11. Are we up-to-date with submitting government remittances?
12. Are we better off or worse off financially than a year ago? Why?
13. What are the reasons for fluctuations in revenue? Are these fluctuations to be expected? If not, do we have a plan to adjust the budget so that we do not incur a deficit at the end of the fiscal year?
14. What are the reasons for variances per revenue and expense line? Does the Executive Director provide a Management Variance Report to the board with a brief explanation for any variances?
15. Are managers and the Executive Director required to produce a variance report that clearly outlines the nature of the variance and any required actions?
16. Are restricted revenues used strictly for the agreed upon activities?

Cash Flow Management

17. Are we dipping into our reserves or investment funds to cover any cash flow difficulties?
18. Are we monitoring if we are returning the dollar amount taken from reserves or investments to help with our cash flow difficulties?
19. What are our plans to return the amount we have taken from our reserves or investments to help with cash flow difficulties?

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20. Do we have a policy to prevent the Executive Director using our investment funds to cover cash flow difficulties until this has been approved by the board?
21. How do we know if the organization is having difficulty paying its bills?
22. Can we pay our bills on time? Is the organization having difficulty paying its bills? Can we see the Aged Accounts Payables report so that we can see how many bills and the total dollar amount that is outstanding?
23. Are we on track with accumulating surplus revenues (unrestricted liquid net assets)? If not, why not? If not, what actions are required to adjust our expenses?
24. What is our monthly “burn rate”? (burn rate = average monthly expenses)
25. Do we have 3 months of reserves to cover our burn rate for 3 months?

Investments

26. Are we making sure that no board or staff member is individually responsible for selecting investments or receiving commissions or any type of finder’s fee on the organization’s investments?
27. Are we satisfied with the performance our investments given the level of risk appropriate for those funds? What research was conducted prior to selecting the current investments? Is it time to reassess our investment portfolio?
28. Are our investments low-risk? Have we committed to a low-risk investment portfolio?
29. Are we satisfied with the performance our investments given the level of risk?

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3. Some Questions the Board Should ask about Financial Reports

1. Do the organization's financial statements include:
 - the month that just closed and the year-to-date
 - dollar and percentage variances per line
 - a narrative report outlining a summary of the organization's financial performance
2. Can you provide information on the top three variances for revenues and for expenses and the reasons for these variances? What actions are required?
3. Did the organization incur a deficit or surplus this month? why?
4. Did the organization incur a deficit or surplus in this quarter? Why?
5. Is the year-to-date budget a deficit, break-even or surplus? If a deficit or surplus, please explain why?
6. What is the year-end forecasted financial projection? If a deficit or surplus, please explain why?
7. If the organization is in a deficit position, please ask: why is the organization in a deficit position? What actions need to take place for the organization to have a break-even or surplus financial position for the upcoming year-to-date forecast and/or year-end financial position?
8. Does the organization receive funding for services after the services have been delivered? If so, how much time after the services are delivered is funding received?
9. Are any of the organization's funding agreements based on performance or outcomes-based funding?
 - If so, does this mean that the funding amount in the budget may not be fully received based on the outcomes or performance of the program(s)?
 - If so, how much money may not be received due to performance or outcomes that are not met?
 - Have we ever been in a position where we did not receive the full amount of funding that we projected from any one funder?
10. If the organization is using a line of credit or loan, please ask: why is the organization using a line of credit or loan? Is it used to bridge the timing of when we expect to receive funding? Are we using it to pay for a deficit or a large purchase that was not planned for? Are we in the position to repay this line of credit or loan? What are the criteria the bank has imposed on the organization for using the line of credit or loan?
11. Does the board receive a Statement of Financial Position (balance sheet) and do they know how to read and analyze it? If not, what training needs to be identified for the board?

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12. Does the board receive a Statement of Financial Position (balance sheet), Statement of Operations (income statement), a narrative report from management that outlines the variances and summarizes the financial position of the organization at every meeting? Why or why not?
 - Note to board members: there no good reasons why this information should not be provided to you at each meeting. Some board members will say that a cash flow forecast is providing too much information, yet cash flow forecasts are generally not produced internally if they are not required by the board. Encourage your Executive Director to look at it monthly, by having this report in the monthly board package the Executive Director will be required to view it.
13. Has the finance committee reviewed the financial package prior to the board meeting to proactively address any issues, and ask questions to clarify figures in the reports?
14. Does the Statement of Operations (income statement) show variances per revenue source and expense line by the month, quarter-to-date, year-to-date, and in comparison, to the annual budget? Are the variances in both dollar and % amounts?
15. Are the monthly/quarterly financial report packages provided to the board by staff with accurate and timely manner? Do the reports allow board members to easily understand the financial state of the organization? If not, how can the statements be improved?
16. Does the board receive a balance sheet, income statement, management variance report, statement of changes in net assets, and statement of cash flows (different then a cash flow forecast), at year-end?
17. Is the draft annual audit reviewed by the finance committee and then shared with the board for review, discussion and approval - prior to any approvals of the audited statement.
18. Are we filing our T3010 statement with CRA in a timely manner?
19. Are we filing on a timely basis all other reporting documents required by us under law and by agreement with funders?

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