

# *Effective* Board Leadership

A P R E G N A N C Y R E S O U R C E M A N U A L



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# SECTION 5

## Finances

### Topics:

- Introduction
- Budget and Financial Essentials
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  - Accounting Principles for Crisis Pregnancy Centers

## Introduction

The board is responsible, in all aspects, for the oversight of the organization. This section explores the board's responsibility related to finance, specifically budgeting, accountability, and reporting.

## Budget and Financial Essentials

### Role of the Board

A key function of the board is the election of officers, one of which is the treasurer, and appointing members to the Budget and Finance Committee and the Audit Committee.

The office of *Treasurer* is particularly important because ministries depend on finances remaining above reproach. Therefore, the Treasurer should possess accounting or bookkeeping skills, preferably with some formal training, as well as all the other necessary traits and qualifications of a board member. Keep in mind that acting as treasurer may incur certain legal liabilities beyond that of a regular board member.

The *Budget and Finance Committee* oversees the budget process, including developing and proposing new and revised budgets. The responsibilities of this committee include reviewing the balance sheet and the income and expense statement, as well as determining the financing for major purchases such as real estate. Ideally, one (and only one) board member should also be a member of the Budget and Finance Committee. The total number of members on the Budget and Finance Committee should be three to five, however, it depends largely on the size of the organization.

The *Audit Committee* selects an auditor who will review whether the proper financial methods and controls are in place and followed. The audit committee has at least three members that are *ex officio*: the Treasurer, a member of the Budget and Finance Committee, and the Executive Director or Chairman of the Board.

At every regular meeting the board members should evaluate financial information and update their understanding of the organization's financial condition, including a balance sheet and operating statement.

*The balance sheet* of the period most recently ending should be provided for the meeting. It lists information such as assets and liabilities. The most important item of the current assets is the cash position. Other assets include inventory and accounts receivable. Fixed assets are building(s) and furniture, equipment and leasehold improvements. Liabilities include both short-term (current) and long-term obligations. Current liabilities are obligations due within one year, such as debts owed



*The board should pay particular attention to the monthly differences between the actual and approved budget numbers and require explanations from the treasurer.*

to vendors and current mortgage or lease obligations. Long-term liabilities are obligations due in excess of one year, such as loans and mortgages. Reports should be presented in a manner consistent with generally accepted accounting principles (GAAP).

The *operating statement* (also referred to as the income and expense statement) details the income and expenses for the period. The statement should also include comparisons between the actual and approved budgets and between current month, year-to-date (YTD) and last year's actual YTD. The board should pay particular attention to the monthly differences between the actual and approved budget numbers and require explanations from the Treasurer.

The responsibilities and authority of the positions should be outlined in job descriptions or the bylaws, but keep in mind that it is easier to change a job description than the bylaws. Following are the functions of the treasurer and committees, addressed in more detail.

### **Treasurer**

The Treasurer insures that the financial affairs of the organization are conducted in an accurate, efficient, secure, and timely manner. The treasurer serves as an *ex officio* member of the Audit Committee and the Budget and Finance Committee. The Treasurer reports to the Chairman of the Board. The responsibilities of the Treasurer are as follows:

#### **1) Oversight**

The Treasurer's primary responsibilities are to ensure that adequate checks and balances are in place and that the income and expenses are properly recorded. The receipts must provide an adequate paper trail to substantiate the *source of income*. (The Treasurer should pay particular attention to tax laws relating to charitable contributions.)

Expenditures must have appropriate approvals and must be within the approved budget. Also, goods purchased and received must be accounted for on the invoice and/or packing slip.

The Treasurer reviews and/or prepares the monthly financial statements and presents financial reports to the board. It is desirable that the Treasurer has experience in accounting and with not-for-profit organizations.

#### **2) Checks and Balances**

Every pregnancy center should have adequate controls in place for the receipt of contributions, particularly relating to the handling of cash. The controls should be such that person(s) handling funds can never be accused of mishandling the funds or the appearance thereof. To

safeguard the handling of contributions and other revenues, carefully delineate and monitor the receipts by dividing the task among several people.

Policies controlling disbursement of funds should be adopted, including:

- *The signing of checks.* Specify who can sign and the number of signatures required.
- *Expense approval procedure.* Require approval and documentation for reimbursement of expenses and payment of invoices.
- *Accounting for operating and designated funds.* Require adequate paper trails in order to substantiate the origin of contributions.

### 3) **Chart of Accounts**

The Treasurer is responsible for developing and overseeing a Chart of Accounts. The Chart of Accounts is a list of the budgeted line items with corresponding numbers for easy identification. The Chart of Accounts should be organized by category such as income, expense capital, etc., and each category should share the same series of numbers. Generally the asset accounts of the balance sheet start with the number 1000, liability accounts 2000, capital accounts 3000, income accounts 4000, expense accounts 5000, etc.

### 4) **Charitable Contributions**

Treasurers need to be familiar with the many legal requirements that apply to charitable contributions so that they can determine the deductibility of the contributions and properly advise donors. New regulations should be monitored and reviewed for compliance.

Charitable contributions must be properly substantiated, particularly individual contributions of cash or property of \$250 or more and “quid pro quo” contributions in excess of \$75. Making and retaining copies of donor checks provides a good audit trail. Procedures that dictate speedy acknowledgement of donations are important, and if the donation is significant, a personal note from the Executive Director is advisable. In addition, special substantiation procedures apply to contributions of non-cash property valued by the donor at \$500 or more. If the value is more than \$5000, then the donor must obtain a qualified appraisal of the property and attach an appraisal summary (IRS Form 8283 - Non-cash Charitable Contributions) to the tax return on which the contribution is claimed. In some cases, an

organization that receives a donation of non-cash property valued by the donor at more than \$5000 must submit an information return (IRS Form 8282 - Donee Information Return) to the IRS if it disposes of the property within 2 years of date of gift.

Not-for-profit organizations are not appraisers and have no legal obligation to determine the value of the donated non-cash property. They should provide donors with a receipt that describes in detail donated non-cash property, but that does not value the property.

#### **5) Reporting Requirements**

Federal law and many state laws require not-for-profit organizations to comply with tax regulations and file reports and information returns in a timely manner. We have compiled a suggested list of reports that you may be required to keep on file or may have to file with the federal government. A basic knowledge of the following will be helpful in determining which of the reports you must file. Other filings may also be required, such as real and personal property tax exemptions.

- W2 - Wage and Tax Statement
- W3 - Transmittal of Wage and Tax Statements
- W4 - Employee's Withholding Allowance Certification
- W9 - Request for Taxpayer Identification Number and Certification
- 941 - Employer's Quarterly Federal Tax Return
- 941E - Quarterly Return of Withheld Federal Income Tax and Medicare Tax
- 990/990EZ - Return of Organization Exempt from Income Tax
- 990T - Exempt Organization Business Income Tax Return
- 1096 - Annual Summary and Transmittal of U.S. Information Returns
- 1099 Misc. - Miscellaneous Income
- 7004 - Application for Automatic Extension of Time to File Corporation Income Tax Return
- 8282 - Donee Information Return
- 8283 - Non-cash Charitable Contributions

Many states have similar reporting requirements, so check with your respective state agency for further information. Internal Revenue Service instructions and forms can be ordered by phone (1-800-829-3676) or retrieved online at [www.irs.gov](http://www.irs.gov).



*Some non-profit organizations may be exempt from certain state sales taxes.*

Other IRS publications that may be of special interest and can be ordered by phone include:

- Publication 334 - Tax Guide for Small Business
- Publication 526 - Charitable Contributions
- Publication 557 - Tax-Exempt Status for Your Organization
- Publication 561 - Determining the Value of Donated Property
- Publication 598 - Tax on Unrelated Business Income for Exempt Organizations
- Publication 937 - Business Reporting (Employment Taxes, Information Returns)
- Publication 1391 - Deductibility of Payments Made to Charities: Conducting Fund-Raising Events
- Circular E - Employer's Tax Guide

Keep in mind that in some states, not-for-profit organizations that have 501(c)(3) status may be exempt from certain state sales taxes. In some states the sales tax does not need to be paid or can be claimed quarterly. Check with your state agency for reporting and exempt status of the sales tax.

### **Budget and Finance Committee**

The Budget and Finance Committee is appointed by the board of directors. It may consist of the treasurer, director, accountant, and anyone else knowledgeable in the area of budgets. The chairman of the Budget and Finance Committee is elected by the members of the Budget and Finance Committee and does not need to be a member of the Board of Directors.

The Budget and Finance Committee's primary function is the budget process and presenting annually a proposed budget for approval. The Budget and Finance Committee reviews the financial statements with the treasurer for any areas that present a problem. The Budget and Finance Committee must also review the expenditures and verify that the expenses are charged to the appropriate budget line item. Also, it is important that the expense complies with the original intent of the approved budget. Any deviations or unforeseen expenditures can be addressed in two ways:

- 1) The board should give the Budget and Finance Committee the responsibility to work out any problems as long as it does not affect the total budget.
- 2) The entire board must approve any increase in the total budget.

The budget and finance committee should make sure that the organization not only stays within the budget guidelines but also that the organization stays within available resources.

Accountability to donors and prudent spending are important aspects of handling the moneys entrusted to the care of the board members. A financial audit is one way of providing accountability to donors. Although an annual audit is preferred and strongly recommended, for the smaller centers it may not be possible to commit the resources for an audit. Other options are discussed in the next section on the Audit Committee. Centers with revenues in excess of \$50,000 are encouraged to become a member of the Evangelical Council for Financial Accountability (ECFA). ECFA adds credibility to the center by verifying accountability and the integrity of the organization. Information regarding ECFA can be found at the end of this section.

Special considerations in the budget process are *Unplanned or Unexpected Expenditures* and *Cash Flow*.

- 1) *Unplanned or Unexpected Expenditures* are expenditures not included in the approved budget. Unplanned expenditures can be administered by transferring funds from an existing line item in the budget that will likely be unused to another existing line item or a new one. The transfer of funds can be approved by the Budget and Finance Committee as long as there is no change in the overall budget. If the amount increases the budget, approval by the full board in addition to the Budget and Finance Committee is required.
- 2) *Cash Flow*. Attention should be paid to seasonal and cash flow considerations. It is not enough to balance an annual budget. Income and expense variations should be analyzed monthly to ensure responsible financial management.

### **Audit Committee**

The role of a functioning Audit Committee is very important and it is very different from the Budget and Finance Committee. The Audit Committee, in addition to selecting an audit firm, decides the extent to which an audit should be performed. The Audit Committee also provides for the proper procedures regarding financial management.

The Audit Committee selects an accounting firm to prepare an annual audit of the organization's financial records, reviews the annual audit and any accompanying management letter, and reports the audit findings to the Board of Directors.

The Audit Committee should consist of three members as follows:

- 1) Chairman of the Board - who will serve as committee chairman
- 2) Chairman of the Budget and Finance Committee
- 3) Treasurer

The Audit Committee reports to the Board of Directors. The following is a summary list of the Audit Committee functions:

- The Audit Committee selects an accounting firm to prepare an annual audit of the organization's financial records.
- The committee reviews the audit and accompanying management letter, and reports their findings and recommendations in a timely manner to the Board of Directors.
- The Audit Committee proposes an annual audit budget to the Budget and Finance Committee.
- The Audit Committee recommends to the Board of Directors the type of audit that should take place: an audit, a review, or a compilation.

An audit is a complete analysis of procedures of the financial records and includes tests. There are two sub-categories of audits called review and compilation. More complete definitions of the audit and its sub-categories follow:

Audit: An audit is conducted in accordance with generally accepted auditing standards and includes tests of the organization's accounting records and other procedures. An audit aims to express an unqualified opinion that the financial statements are fairly presented in all material aspects and are in conformity with generally accepted accounting principles (GAAP). The opinion is expressed in writing and, if unqualified, it affirms that the organization is handling their financial affairs in an excellent manner.

Review: A review consists primarily of inquiries of organization personnel and analytical procedures applied to financial data and requires a representation letter from the management of the organization. A review does not contemplate obtaining an understanding of the internal control structure or assessing control risk, testing of accounting record and responses to inquiries by obtaining corroborating evidential matter, and certain other procedures ordinarily performed during an audit. A review cannot be relied upon to disclose errors, irregularities, or illegal acts, including fraud or embezzlement, that may exist. Material errors and any irregularities or illegal acts would be cited in a report. The objective of a review is to express an opinion regarding the financial statements taken as a whole.



**Compilation:** A compilation is limited to presenting, in the form of financial statements, information that is the representation of management. The financial statements are not audited or reviewed and, accordingly, an opinion or any other form of assurance is not expressed by the auditor.

The key elements to consider when deciding on the type and scope of the audit are the expectations of donors who want to be assured of the integrity of the organization's financial condition, and the affordability of the audit.

### **Budget and Finance Process**

Budget and finance, although closely related, have two distinct functions and processes. The budget process produces a budget. The finance process follows up and tracks the budget compared to the actual income and expenses. If procedures are followed these functions become vital tools for your center. In essence, they are a barometer of the financial health of the organization.

Good financial records are necessary for the following reasons:

- **Scriptural mandate**  
God requires good stewardship. It is important to understand that we are stewards, not owners. God is the owner. "The earth is the Lord's, and everything in it, the world, and all who live in it."<sup>1</sup> The Psalmist further confirms that everything belongs to God.<sup>2</sup>
- **Donors**  
We have a responsibility to those who give sacrificially and generously to the ministry entrusted to our care. We are accountable to the Lord and to those who support the ministry for every penny we receive and spend.<sup>3</sup>
- **Government requirements**  
We need to maintain adequate records to meet federal and state requirements.<sup>4</sup>



*Using last year's figures and adding a percentage to establish the new budget is not a good method of budgeting.*

### **Budget Preparation and Presentation**

Several prerequisites are necessary for budget preparation. First, the organization must develop a plan, which reflects the goals and objectives for the budget year. This plan should also factor in increases in staff salaries or additions to the staff, new programs, and inflation. Second, the budget should be "zero-based." Zero-based budgeting starts from scratch each year. This avoids building upon historical data. Using last year's figures and adding a percentage to establish the new budget is not a good method of budgeting.

Some examples of how zero-based budgeting works are as follows:

- **Personnel**  
List your current staff, salaries, and benefits. Add to this any changes that the personnel committee recommends, e.g. additional staff and benefits, change in benefits, and proposed salary increases.
- **Ministry Expansion**  
Budgeting for ministry expansion should include anticipated program expenses (staffing should be covered in the personnel section of the budget). Do not forget to include overhead expenses for additional staff, such as additional office equipment and telephone expenses.
- **Advertising**  
Advertising should be thought through carefully, especially *where* you plan to advertise, such as yellow pages, newspapers, student newspapers, etc. Obviously the emphasis could change from year to year.
- **Banquets**  
Banquets are an excellent example of the advantages of this type of budgeting process. Every time a fundraising banquet is planned, the zero-based process is applied to location of the banquet, number of guests expected, cost of the food, speaker honorarium, entertainment, table decorations, printing of invitations and programs, etc.

Budget line items that could be increased based on a percentage increase are gas, water, and electricity, if, everything else being equal, there will be no significant change in the operation of the organization.

A list of who is responsible for preparing the proposed budget line items is helpful in preventing items from falling through the cracks. One of the questions that should be addressed is who is responsible for the preparation of the budget. It is recommended that those who are most knowledgeable about the specific line item suggest the amount to be included in the proposed budget. It is advisable to develop the budget for a specific program with that program's administrator.

Collection of the data and the preparation of the proposed budget is the responsibility of the Budget and Finance Committee. However, staff involvement is strongly recommended. The first draft of the proposed budget generally takes the form of a "dream sheet" and requires the Budget and Finance Committee to discuss revisions with the individuals involved in the process. It is important for the Budget and Finance Committee to suggest changes to those people involved in the requested budget, rather than simply adjusting the requested budget amount. Good communication, interaction, and staff involvement are essential.

In the event the proposed budget cannot be balanced, the board should determine if additional fundraising efforts should be made, if the board should take a prudent and conservative step of faith, and/or if the board should cut some areas in the budget.

Deviation from this process may be necessary for smaller centers. However, it is important to achieve a balanced budget which is reasonable and obtainable and meets the goals and objectives of the center.

Below is a suggested budget process. This process assumes that the budget cycle is based on a calendar year - January through December. If your budget cycle is not on a calendar year, adjust the months accordingly.

The Budget and Finance Committee initiates the process by informing the staff of the proposed budget requirements and timetables.

A suggested timetable may look like this:

- During the allotted budget preparation period, personnel evaluations should be in process and the personnel committee should have completed their research regarding staff compensation, cost-of-living information, and benefits.
- September - The Budget and Finance Committee sends a letter to the staff and committees requesting that the staff prepare a proposed budget, by line item, with sufficient detail to support the requested amount. The Budget and Finance Committee provides forms for this purpose - a budget form and cash flow requirements by month.
- October/November - The staff members submit their proposed budgets to the Budget and Finance Committee for review. The committee may elect to have the requesting party/ministry answer questions about the requests.
- November/December - The Budget and Finance Committee presents the proposed budget to the board for approval. The presentation should include the following information: actual YTD income and expenses, current year budget, previous two years' actual income/expense, and a proposed budget with budget notes (explanations about the major variances).
- January - The approved budget is ready for implementation.



*Our conscience testifies that we have conducted ourselves in the world, and especially in our relations with you, in the holiness and sincerity that are from God.*

*2 Corinthians 1:12*

## **Evangelical Council for Financial Accountability (ECFA)**

Every eligible affiliate is encouraged to become a member of the ECFA. ECFA is recognized throughout the United States for its high standards of responsible stewardship. Acceptance for membership signifies to contributors that the organization adheres to the standards of ECFA which are:

- Doctrinal statement
- Board of Directors and audit review committee
- Audited financial statements
- Controls for transferring contributions
- Financial disclosure
- Conflicts of interest
- Fundraising

Affiliates that cannot afford to become a member of ECFA should still strive to meet the standards of responsible stewardship. (*see 2 Corinthians 1:12*)

### **Accounting Principles for Crisis Pregnancy Centers**

by Robert Harvey

A crisis pregnancy center (CPC), as a non-profit organization, enjoys the unique position of being a trustee and steward of other peoples' money. The federal government grants certain privileges to your center, like freedom from income taxes, because you manage the use of benevolent gifts to accomplish a specific mission, serving women faced with unplanned pregnancies. It is important to remember that the assets your center has and receives are not yours. First, they belong to the Lord. And second, they belong to the public at large, in that your center, in fact, is a public trust.

"Put not your trust in money, but put your money in trust." Oliver Wendell Holmes

The lesson taught in the parable of the talents illustrates our responsibility to the trust we manage. We must be careful to insure that our efforts will be deemed good and faithful. Therefore, good financial procedures and record keeping are an important duty of the CPC board of directors.

#### **Framework for Financial Responsibility**

Unfortunately, many times centers assume that the accounting task is overwhelming. However, because most centers are relatively small, and have few transactions, it really is very manageable if a systematic approach is employed.

First, the board of directors should take care to establish checks and audits that insure that the center's fiscal management is accomplished in the manner that the board has directed. A specific board member (usually the treasurer) should be charged with a monthly review of fiscal transactions which may include:

- 1) Counter-signing checks greater than a specified amount;
- 2) Reviewing all canceled checks;
- 3) Reviewing expenses in relation to budget constraints;
- 4) Assessing the organization's cash flow;
- 5) Ensuring that more than one person receives and processes revenues; and
- 6) Reviewing bank statements to ensure deposits are being made accurately and promptly.

Second, the center should appoint an individual to be responsible for keeping the accounts. Preferably, that person will have some bookkeeping experience or have an aptitude for working with numbers. This responsible person will assure that the following financial matters are managed in a timely and consistent manner.

#### **Managing Revenues**

Revenue is any asset received by your center. Typically, revenue is in the form of cash or checks as donations, or banquet or walk-a-thon registrations.

However, you may also receive gifts-in-kind, like a new computer or file cabinet. In either case, the receipt of the asset must be accounted for.

Gifts-in-kind, like furniture or equipment, should be listed as fixed assets and recorded on a schedule of all the fixed assets the organization owns. This schedule is used to determine balance sheet values. If one person actually receives the asset and another person sends a receipt for the donation, there will be a built-in check that should prevent any potential discrepancies. Likewise, two people should process donations and other revenues in the form of cash or checks. Optimally, two people should work together to open the mail. The first person opens the envelopes and totals the cash and checks. The second person then records the

## Related Articles

transaction and makes out the deposit slip. Comparing the totals provides a safeguard against discrepancies.

A record should be kept of the donor's name, the amount, the purpose, and a copy of the receipt. Timeliness is critical, especially in letting the donor know the gift was received and appreciated.

### **Paying Expenses**

Most organizations will allow someone the authority to pay anything up to a certain dollar amount (usually in the range of \$100, \$500, or \$1000) if there is a document, such as an invoice or purchase order, justifying the payment for an authorized purchase. A receipt, packing slip or receiving report should also be maintained as proof that the item was actually received. Receipt of the item should also be confirmed by someone other than the check-writer. In addition, as another check on the process, from time to time someone other than the person paying the expenses should match the monies being spent with the invoices and packing slips received.

### **Organizational Cash Flow and Budgeting**

Each month, a document should be prepared comparing actual income and expenses for the particular month and for the year to date, with projected income and expenses. This analysis will help the board and staff assess whether more funds are needed for existing programs and whether the additional programs can be implemented.

Budgeting is critical to the fiscal health of an organization. The board should take seriously the task of an annual budget which is described at length in the Care Net Board Manual. Once the budget has been established, the board and staff should consider it a living document. Each month the actual income and expenses should be compared with the budgeted expectations. Discrepancies should be investigated and spending adjusted when the differences warrant. The same method should be used for cash flow analysis.

One of the end products of all this diligence is the ability to develop an accurate snapshot of the financial condition of the center. At the end of each fiscal year, the center should publish financial statements including: 1) Balance sheet; 2) Income statement; 3) Statement of functional expenses; and 4) Statement of cash flows.

Although these can be developed internally, an accounting professional should probably be employed to generate these reports, with the board of directors closely involved in that process, for yet another check on the system. These reports will be very important in meeting the last area of responsibility for your center's accounting.

### **Governmental Reporting**

As a public trust, your center must meet certain governmental obligations. These are called reporting requirements and include tax reports like Form 990 and Solicitation Forms. They are annoying, arduous, confusing, distracting, and a few other negative adjectives. Nevertheless, they have to be done on a timely basis so that your center can continue the important work you do.

The best approach is to appoint a person in charge of developing the reports with another reviewing the work. A board member should keep a list of the reports due and periodically check to see that nothing has been overlooked.

Frequently the detail of keeping good financial records is regarded as a nuisance and a distraction from the important, life-saving, Christ-affirming work of the center. It is, however, an important part of operating your center with the highest integrity and will help to insure the fiscal health of the center.