



# Board & Staff Roles in Financial Management

## PRESENTED BY

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*November 9, 2006*

# Board and Staff Roles in Financial Management

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8:30 am to 4:00 pm

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## Agenda

8:30 Welcome and Introductions: *Neighborhood Partnership Fund*

Board Roles, Rights, and Responsibilities:

*Leon Laptook, Executive Director*

*Community Development Law Center*

Financial Management Challenges in Affordable Housing

*Kay Sohl, Executive Director*

*Technical Assistance for Community Services*

12:00 - 1:00 Lunch

1:00 Board Oversight Expectations:

*Rick Crager, Deputy Director*

*Oregon Housing and Community Services*

Board and Staff Financial Information Needs: *Kay Sohl*

Strategies for Effective Board Oversight: *Kay Sohl*

4:00 Adjourn

# BOARD ROLES, RIGHTS AND RESPONSIBILITIES

## I. Introduction

- A. **Types of Nonprofits**
  - 1. Corporations, Associations
  - 2. 501(c)(3)
  - 3. Member/Nonmember
- B. How a nonprofit differs from a for-profit business

## II. Roles of Board Members

- A. Strategic Planning and Evaluation
- B. Personnel
- C. Board operations
- D. Financial recordkeeping
- E. Fundraising activities
- F. Community relations

## III. Rights of Board Members

- A. Access to Records, Advisors, Staff
- B. Right to Engage Advisors
- C. Right to rely on info from staff, advisors, committees

## IV. Responsibilities of Board Members

- A. Duty of Care
- B. Duty of Loyalty
- C. Duty of Obedience

## V. Personal Liability of Board Members

- A. No liability if act in accordance with Duty of Care, Loyalty & Obedience
- B. Qualified Director
- C. Exceptions to "No Liability"
- D. Limitations on personal liability through articles
- E. Indemnification
- F. Insurance

## VI. Other Issues

- A. Open Records/Open Meetings
- B. Lobbying and Political Activity
- C. Restrictions on Use of Federal Funds by Religious Organizations

## VII. Resources

# BOARD ROLES, RIGHTS AND RESPONSIBILITIES

## I. Introduction

### A. Types of Nonprofits

1. Corporations, Associations
2. Tax Exempt Status
3. Member/Nonmember corporation (Board members v. "members")

### B. How a nonprofit organization differs from a for-profit business

1. Public Mission v. Private Gain
2. Responsibilities to community and public v. shareholders
3. Volunteer board
4. "Fund balance" versus "profit"
  - a. Commerciality Doctrine—can lose tax exempt status if business of organization looks too much like "normal" business (YMCA)
  - b. Unrelated Business Income: Must pay tax on income from a trade or business regularly carried by an organization and not substantially related to furtherance of the organization's exempt purpose; if have too much UBI, could lose 501(c)(3) status; there's no clear guideline on how much is too much.

## II. Roles of Board Members

### A. Strategic Planning and Evaluation:

1. Oversee management of organization,
2. Keep organization focused on its mission,
3. Understand organization's programs and resources,
4. Understand organization's staffing
5. Understand Articles, Bylaws and other documents and laws governing the organizations

### B. Personnel

1. Hire and evaluate executive director; executive director deals with staff
2. Adopt personnel policies
3. Set salary scales, fringe benefits
4. Delineate roles of board and staff
5. Adopt policies re: use of volunteers, independent contractors

### C. Board operations

1. Recruit board members
2. Active participation:
  - (1) attend board meetings,
  - (2) read materials
3. Board manual (articles, bylaws, meeting minutes, financial reports)
4. Board trainings

### D. Financial recordkeeping

1. Adopt internal controls policy
2. Adopt budget
3. Review monthly and year-end financial statements
4. Make sure payroll taxes, workers comp are paid
5. Make sure state and federal tax returns are filed
6. Adopt investment policy for excess cash
7. Make sure insurance policies are in place
8. Track "unrelated business income"

### E. Fundraising activities (participate in fundraising activities, make sure organization remains solvent)

### F. Community relations: talk up organization at meetings, come to special events

### III. Rights of Board Members

#### A. Access to Information:

1. Management,
2. Internal Information,
3. Books and Records;
4. Organization's Advisors (attorney, auditor)

#### B. Reliance.

1. Right to Engage Outside Advisors;
2. OK to rely on information, opinions, reports or statements of *staff or outside advisors (lawyers, accountants, etc.)* if director reasonably believes person presenting information is reliable, information is within person's area of competency.
3. Right to Rely on reports of *Board Committees* of which the director is not a member, as to matters within its jurisdiction, if the director reasonably believes the committee merits confidence; however, the creation of, delegation of authority to, or action by a committee does not alone constitute compliance by a director with this standard of conduct.
4. No right of reliance if director has knowledge that makes such reliance unwarranted
5. While it's OK to rely on others, you cannot simply rubber-stamp recommendations of others; rather, you must make your own independent decisions. You must conduct reasonable inquiries to be sure you get sufficient information to carry out your responsibilities.

#### IV. Responsibilities of Board Members

##### A. Duty of Care (ORS 65.357)

1. *Act in good faith, with due care, with reasonable belief that action is in best interest of organization*
2. Deal openly, honestly, and fairly.
3. You must actively participate by attending meetings, evaluating reports, reading meeting minutes and evaluating the performance of the Executive Director. Be diligent, attentive, and familiar with all relevant materials
  - a. Missing meetings is no excuse
  - b. Active and Informed Participation—review information before meetings, ask questions at meetings
4. While it's OK to rely on others, directors cannot simply rubber-stamp recommendations of others; rather, you must make your own independent decisions. You must conduct reasonable inquiries to be sure you get sufficient information to carry out your responsibilities.
5. Ensure that the corporation is solvent, that adequate funds are available for corporate obligations,
6. Ensure that programs are run reasonably and effectively, and are in accordance with the organization's mission.
7. *You don't have to be right all the time. You do have to act in good faith, with due care, in an informed manner and in a manner you reasonably believe is in the best interest of the organization.*

## Responsibilities of Board Members (continued)

### B. Duty of Loyalty

1. *Put the interests of the organization first.*

2. Avoid *Conflicts of Interest* (ORS 65.361):

a. *What is a Conflict of Interest?* A conflict of interest transaction is a transaction with the Corporation in which a director of the corporation has either a direct interest (such as a financial interest) or an indirect interest.

(1) A director has an indirect interest if either (1) another entity in which the director has a material interest or in which the director is a general partner is a party to the transaction, or (2) another entity of which the director is a director, officer or trustee is a party to the transaction and the transaction is or should be considered by the Board of the corporation.

(2) While the statute does not say so, you should consider whether matters involving friends, relatives should also be included.

b. *Procedure to Follow:* A transaction in which a director has a conflict of interest may be approved by the Board if the material facts of the transaction and the director's interest are disclosed or known to the Board, and the transaction is in the best interest of the corporation.

(1) The transaction must be approved by a majority vote of the directors on the Board who have no direct or indirect interest in the transaction, even if less than a quorum.

(2) The director who has a conflict should (a) disclose the material facts, (b) disclose what the director's interest is that creates the conflict, and (c) abstain from participating in the discussion and vote.

(3) However, the presence of, or a vote cast by, a director with a conflict of interest does not affect the validity of the vote, if it was fair to the corporation at the time it was entered into. [It is not advisable to rely on this standard. Follow the "disclose and don't vote" procedure.]

(4) Minutes should reflect disclosure, that there was discussion re: why transaction is in best interests of corp., abstention and who voted and how they voted

c. The usual remedy for breach is to require the director to restore the corporation to the position it was in before the violation.

d. *Have a written "conflicts of interest" policy*—define what constitutes a conflict of interest, set out the procedure to follow in the event of a conflict,

and state what happens in the event of a breach of the policy.

3. *Maintain Confidentiality of Information*-- Treat as confidential all matters involving the corporation until there has been a general public disclosure, unless and until the information is a matter of public record or common knowledge
4. *Don't exploit corporate opportunity* A director may not engage in or benefit from a business opportunity that is available to and suitable for the corporation unless the corporation decides not to engage in the business opportunity and the conflicts of interest procedures are followed.
5. *No material profit*
  - a. **No Private Inurement.** Can't use corporate assets for private gain.
  - b. **Loans to Directors Prohibited.** The Corporation shall not make a loan to or guarantee an obligation of, or for the benefit of, any director or officer of the Corporation, except as specifically allowed by law.

## Responsibilities of Board Members (continued)

### C. Duty of Obedience:

1. This is the duty to follow the governing documents of the organization and to carry out the mission of the organization.
2. You must make sure that there is full compliance with state and federal laws.
  - a. IRC § 501(c)(3) and exemption letter (e.g., *lobbying restrictions*)
  - b. ORS Chapter 65 (nonprofit corporations)
  - c. ORS Chapter 128 (Attorney General oversight of nonprofits)
  - d. Articles of Incorporation
  - e. Bylaws
  - f. Grants and contracts
    - (1) restricted funds
    - (2) procurement requirements
    - (3) nondiscrimination/affirmative action
    - (4) reporting requirements
    - (5) financial recordkeeping requirements (OMB A-110, A-122, A-133)
3. Maintain and update the Articles of Incorporation and the Bylaws.
4. Keep minutes of board meetings.
5. Approve the annual budget
6. Employ an independent accountant for an annual financial report.
7. Receive and review financial reports
8. Appoint officers;
9. Hire, oversee, and evaluate the CEO; if necessary, discharge the CEO. Let the CEO deal with the staff.
10. ensure that donor restrictions are observed and that solicitation activities are responsible.

## V. Personal Liability of Board Members

- A. *If a director acts in accordance with the duty of care and the duty of loyalty, the director will not be personally liable to the corporation or to anyone else.*
1. Have written policies, with associated trainings, for conflict of interest, workplace and employment discrimination
  2. Have Internal Controls covering financial practices, and have an annual audit
  3. Have Personnel Policies and Regular Staff Evaluations
  4. Review Financial Statements
- B. **Qualified Directors.** If a director is a “*qualified director*” (a director who is unpaid, except for reimbursement of reasonable expenses) and the organization is a 501(c)(3) organization, then the director is only personally liable for *gross negligence or intentional acts*, not for simple negligence (ORS 65.369)
- C. **Exceptions to “No Liability”**
1. Excess Benefits—if a “disqualified person” (that is, a person who within past 5 yrs has been in a position to exercise substantial influence over organization (directors, president/CEO, treasurer/CFO, certain family members of these officers; possibly founder, substantial contributor) receives unreasonable compensation, then any director agreeing to such compensation can be fined 10% of the excess benefit, if the director *knowingly and willfully participated in the transaction, and had no reasonable cause for approving it.*
  2. Failure of organization to pay Payroll Taxes or Workers’ Compensation taxes
  3. Loans to Directors (these are absolutely prohibited)
  4. Lobbying-- if organization didn’t make lobbying election, directors who approve expenditures knowing they would likely result in loss of exempt status are liable for a tax = 5% of lobbying expenditures
  5. ERISA Trustees
  6. Agreement to be personally liable: A director may agree to be personally liable, either
    - a. willingly (e.g., by signing a loan guaranty for the corporation), or
    - b. unwillingly (e.g., by failing to indicate on a signature line in a document that the director is signing “as agent for the corporation”).

D. **Limitation of Personal Liability in Articles of Incorporation:**

The Articles can eliminate or limit the personal liability of a director to the organization or its members, except for:

1. Acts occurring prior to the adoption of the provision;
2. A breach of the director's duty of loyalty
3. An act or omission not in good faith or which involves intentional misconduct or a knowing violation of the law
4. A loan to the director or an unlawful distribution
5. Any transaction from which the director derived an improper personal benefit.

E. **Indemnification**

1. Indemnification is an agreement to pay a director for legal fees, damages, and other costs the director must pay because of actions the director took as a director (for example, if the director is sued in court, the corporation may indemnify the director for legal fees and the amount of the judgment).
2. The articles of incorporation or bylaws can allow for indemnification of a director for acts other than those set out in ¶ D(1) through D(5) above.
3. Even if not in the articles or bylaws, the corporation *may* indemnify a director named in a lawsuit if the director acted in good faith and reasonably believed the action was in the best interest of the corporation. The court or the Board must authorize such indemnification, after giving notice to the Attorney General.
4. Unless the Articles of Incorporation state otherwise, the corporation *must* indemnify a director who successfully defends an action brought against the director as a director. (ORS 65.394)
5. Even if a director is entitled to indemnification, a nonprofit corporation may not have the financial resources to bestow it. As a result, directors should plan for this possibility beforehand.

F. **Insurance**

1. Directors and Officers Liability Insurance (purchased by the organization)
2. Individual's insurance coverage: Generally, a director can obtain an individual umbrella liability policy if directors' and officers' liability insurance is not available through the corporation. We recommend that a prospective director discuss this issue with his or her insurance agent.
3. Limitations of Insurance. Policies may not cover gross negligence, or the maximum coverage amount may be insufficient to protect the director adequately. What are the limits of coverage, what is the deductible, are any co-payments required? Typical exclusions from coverage include fines, penalties, punitive damages, employment claims, ERISA claims, libel and slander, and intentional conduct such as fraud, dishonesty or criminal conduct. Endorsements may be available to cover staff, volunteers and employment discrimination.

## VI. Other Issues

### A. Open Meetings Law/Open Records Law

1. Oregon Statutes inapplicable unless organization acting as government
2. Federal law requires disclosure of past 3 yrs' 990 and 501c3 application and supporting materials

### B. Lobbying and Political Activity

1. Lobbying (aka "Legislative Activities") = working to pass a piece of legislation.
  - a. Some lobbying ok, but too much risks loss of 501(c)(3) tax exempt status
  - b. Exceptions:
    1. nonpartisan public policy educational action (eg, full analysis of pros and cons of legislative proposal OK, even if analysis comes to conclusion on the merits of the proposal),
    2. providing testimony and advice upon written request
    3. "self-defense communications": appearing before or communicating with legislative body about decision affecting the organization
    4. legislation of direct interest to the organization: communications between organization and its members about legislation of direct interest to the organization, provided communications don't encourage members to either influence legislation or encourage nonmembers to influence legislation
2. **Political Activity = working to elect a candidate to office or to promote a political party** (includes contributions and public statements); *absolutely prohibited*

### C. Restrictions on Religious Activity if Receiving Federal Funds

1. can't engage in inherently religious activity (worship, religious instruction, proselytization) with federal funds;
2. such activities must be offered separately, in time or location, and participation must be voluntary.
3. can use space in its facility to offer federally funded activities, without removing religious symbols
4. organization retains its authority over its internal governance, and may retain religious terms in its name, select its board members on a religious basis, and include religious references in its mission statement and governing documents
5. cannot discriminate against a program beneficiary on basis of religion

VII. **Resources**

The Oregon Nonprofit Corporation Handbook (4<sup>th</sup> Edition, published by Technical Assistance for Community Services (TACS) (phone 503-239-4001).

CompassPoint Nonprofit Services (phone: 415.541.9000); <http://www.boardcafe.org/>

Risk Management Resource Center: <http://eriskcenter.org/>

Nonprofit Risk Management Center: <http://nonprofitrisk.org/> ; (202) 785-3891

Internal Revenue Service: [www.irs.gov](http://www.irs.gov)

Community Development Law Center: 503-471-1180 [www.cdlcweb.org](http://www.cdlcweb.org)



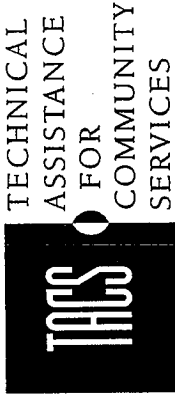
## Red Flags for Board Members

Red Flag	What to Investigate
<p><b>Financial Reports:</b></p> <ul style="list-style-type: none"> <li>• Financial statements not available within one month following each month-end</li> <li>• No Balance Sheet provided for Board members</li> <li>• No distinction made between restricted and unrestricted Net Assets and contributions</li> <li>• No comparison of actual revenues and expenses to the annual budget</li> <li>• No organization wide revenue and expense statement</li> </ul>	<ul style="list-style-type: none"> <li>• Delays in presenting financial statements frequently reflect inadequate staffing of the accounting function. Delays may also be a strategy to deter detection of misuse of funds.</li> <li>• Failure to present the Balance Sheet indicates lack of understanding of the Board's responsibility for ensuring sound financial health. If accounting records are properly maintained, producing the Balance Sheet is not time consuming. Absence of the Balance Sheet may indicate problems with the underlying accounting system.</li> <li>• Board members must be able to determine whether restrictions exist which limit their ability to direct the use of the Net Assets/Net worth.</li> <li>• Comparison of actual revenues and expenses to budget is needed to determine whether the nonprofit's financial plan is working. The comparison of actual to budget is also a key internal control for small organizations, allowing readers to note unusual occurrences which may be indicators of fraud or error.</li> <li>• The organization-wide revenue and expense report is essential for determining overall financial health.</li> </ul>
<p><b>Financial Realities:</b></p> <ul style="list-style-type: none"> <li>• Cash -- less cash on hand than is needed to meet one month's expenditures</li> <li>• Liabilities -- increasing at a rate greater than the rate of increase in expenses</li> <li>• Negative Net Assets/Net Worth --total assets are less than total liabilities</li> </ul>	<ul style="list-style-type: none"> <li>• The Board needs to be aware of cash flow problems and should expect management to present a plan for addressing them.</li> <li>• Growth in liabilities which is disproportionate to growth in overall expenses may indicate either cash flow problems or financial management problems leading to late payment of bills.</li> <li>• Negative Net Worth means the organization is unable to cover all of its debts and has no reserves to fall back on. The Board should approve an explicit strategy to recover from a negative net worth position.</li> </ul>

Red Flag	What to Investigate
<p><b>Financial Realities, cont.:</b></p> <ul style="list-style-type: none"> <li>• Negative Unrestricted Net Assets</li> <li>• Net Assets are consistently dropping – consistent pattern of Expenses exceeding Revenues</li> </ul>	<ul style="list-style-type: none"> <li>• Negative Unrestricted Net Assets may reflect the use of restricted resources for improper purposes. The Board should approve a detailed strategy to recover from negation Unrestricted Net Assets.</li> <li>• A pattern of losses and the resulting declining Net Assets will weaken the organization and may eventually result in being unable to continue operations.</li> </ul>
<p><b>Board Functioning:</b></p> <ul style="list-style-type: none"> <li>• Board attendance is less than 75% over a three month period</li> <li>• Board officers are frequently absent from Board meetings</li> <li>• Board Chair seems uninformed or unengaged</li> <li>• Board meetings are “rubber stamp” for actions of staff</li> <li>• Executive Committee seems to make all the “real” decisions</li> <li>• Board committees do not meet regularly and seem overly dependent on staff</li> </ul>	<ul style="list-style-type: none"> <li>• Poor Board attendance suggests lack of involvement by Board members.</li> <li>• Absence by officers or lack of engagement by the Board chair may indicate that the Board is functioning as a “rubber stamp” and that officers are not providing meaningful oversight.</li> <li>• Board meetings should include engaged discussions by Board members of significant choices the organization is making. If meetings consist of affirming staff recommendations and actions, the Board is probably not adding much value to the organization.</li> </ul>
<p><b>Board Financial Oversight:</b></p> <ul style="list-style-type: none"> <li>• No independent audit or review</li> <li>• No audit committee or clear use of Board finance committee to function as audit committee</li> <li>• No updated written fiscal policies and procedures</li> <li>• No bonding insurance</li> <li>• No independent bank reconciliation</li> </ul>	<ul style="list-style-type: none"> <li>• Determine why the organization does not have an audit or review. If the organization has over \$1 million in annual expenses, the excuse that audits/reviews “cost too much” is questionable. Without an audit/review, the Board cannot know whether it can rely on the financial reports to present an accurate picture of the financial condition of the organization. If cost is the issue, the Board should explore alternative strategies to gain assurances about the reliability of the financial statements.</li> <li>• Find out how the Board is communicating with the auditor – Board members should have an opportunity to talk with the auditor while staff members are not present.</li> </ul>

Red Flag	What to Investigate
<p><b>Board Financial Oversight, cont.:</b></p> <ul style="list-style-type: none"> <li>No meaningful Board discussion of financial challenges and financial reports</li> </ul>	<ul style="list-style-type: none"> <li>Lack of written fiscal policies may indicate lack of attention to internal control – the policies and procedures designed to prevent and detect error or fraud.</li> <li>Bonding insurance will repay losses from embezzlement. Every nonprofit needs this protection which is generally not expensive.</li> <li>Reconciliation of the bank statement by someone other than the person who prepares checks, journal entries, and financial reports is the single most significant internal control.</li> <li>Lack of Board discussion of financial statements may indicate lack of understanding of the Board's responsibility for financial oversight.</li> </ul>
<p><b>Fund Raising:</b></p> <ul style="list-style-type: none"> <li>Less than 100% of Board members contribute financially to the organization</li> <li>Less than 80% of Board members participate in some way in fund raising activities</li> <li>Fund raising goals are not met over a 12 month period</li> <li>Cost to raise 1 \$ vastly exceeds industry norms</li> </ul>	<ul style="list-style-type: none"> <li>Involvement in fund raising may be a transitional issue for some Boards, particularly those in organizations which have previously received almost all funding from government. See if the Board had made a commitment to transitioning to an expectation that every Board member will make a contribution at a level appropriate to their ability and that all Board members will help in some way with fund raising.</li> <li>Realistic fund raising goals are important for sound financial management.</li> <li>Determine whether Board members know why goals have not been achieved and whether there is agreement about how to achieve future goals.</li> <li>The cost to raise a dollar varies widely depending on how "mature" the development effort is. In general, newer efforts to raise funds from individuals are more expensive. Major donor fund raising often costs the least per dollar raised but is not possible until substantial groundwork is done. Be sure to compare the organization's cost to raise a dollar to organizations in similar stages of development.</li> </ul>
<p><b>Governmental Contracts/Grants:</b></p> <ul style="list-style-type: none"> <li>Lack of consistency between funds sought and agreed upon mission and priorities</li> </ul>	<ul style="list-style-type: none"> <li>Chasing dollars – accepting contracts to provide services that seem far outside the agency's mission – is usually a sign of poor management and tends to distract efforts from sustainability.</li> </ul>

Red Flag	What to Investigate
<p><b>Governmental Contracts/Grants, cont.:</b></p> <ul style="list-style-type: none"> <li>Negative reports from monitoring visits</li> <li>Findings and Questioned Costs in A-133 audits of federal funds</li> </ul>	<ul style="list-style-type: none"> <li>Government funders send monitors to check on whether contractors are meeting the requirements of their contracts, both in terms of program services and in terms of financial management. Negative reports generally mean that the organization is not complying with requirements and is at risk of not being funded again or, in the worst case, at risk of being required to repay grant/contract funds.</li> <li>The A-133 audit is required of organizations with more than \$500,000 in expenses paid with federal funds within the fiscal year. Questioned costs or findings arise when the auditor finds instances of noncompliance with grant or contract requirements and can result in requirements to repay funds or poor ratings for future applications for funds.</li> </ul>
<p><b>Executive Director/ Board Relationship</b></p> <ul style="list-style-type: none"> <li>Board has not evaluated the performance of the Executive Director</li> <li>Board appears to be very critical of or in conflict with the Executive Director</li> </ul>	<ul style="list-style-type: none"> <li>Failure to evaluate the Executive Director reflects lack of involvement and lack of understanding of Board responsibility.</li> <li>Boards and Executive Directors need to work together with respect and appreciation for each other. Conflict between the Executive Director and the Board detracts from the ability to raise funds, recruit good Board members, and build positive relationships in the community.</li> </ul>



## Before You Say Yes . . . . . Questions to Ask Before Joining Boards

Questions to Ask	Evaluating the Answers
Why do you want me to join your Board?	Do the Board's desires for your involvement match your skills, interests, and time availability?
What is the role of the Board?	Is the role clear? Does the role make sense given the size and stage of development of the organization?
What are your expectations of Board members?	Are Board members expected to make financial contributions? How is the issue of differing abilities to give handled? Are all Board members expected to help with fund raising? Can they describe a way that Board members help with fund raising which fits your style, ability, and willingness?
Has the Board adopted a Conflict of Interest policy? Do they follow it?	Lack of awareness of the need for a Conflict of Interest policy may indicate that the Board is not keeping up with current pressures for charity reform. Having a Conflict of Interest policy and failing to follow it exposes the organization to increased risks.
Does the organization have Directors and Officers liability insurance coverage?	While the risk of being held personally responsible for damages arising from your service as a Board member is extremely low, you may have to defend yourself in the event a lawsuit names Board members as well as the corporation itself. Directors and Officers insurance will cover the cost of your legal defense.  If the organization does not currently carry Directors and Officers insurance, are they open to discussing obtaining it? Do you think that you will be able to pay enough attention to risk management issues as a Board member to feel comfortable serving without Directors and Officers coverage?

Questions to Ask	Evaluating the Answers
What are the most important choices and challenges which this organization confronts?	Do Board members seem to have a clear picture of the environment in which the organization is operating? Do Board members have clear understanding of the strengths and weaknesses of the organization? Are you interested in the challenges and choices they have identified?
What do Board members consider to be the organization's greatest accomplishments?	Do you consider these accomplishments personally meaningful? Do you feel a deep values connection with what the organization is doing?
What has the Board spent the most time on in Board meetings over the past year?	Do you believe you could make a meaningful contribution to discussion of issues like these? Do the meetings sound interesting to you? Does the use of Board time seem to correspond to the stated role of the Board?
How often does the Board evaluate the Executive Director? How does the Board handle setting the Executive Director's compensation?	Does the level of Board involvement in the evaluation seem appropriate for the size and stage of development of the organization? Does the approach for setting Executive Director compensation seem reasonable for an organization of this size?
What is the long term funding strategy for this organization?	Does the strategy seem consistent with what you have been told about the role of the Board? The current composition of the Board? The choices and challenges identified above?
Is the organization audited or reviewed by an independent CPA? Why or why not?	If there is no agreed upon long term funding strategy, are you comfortable joining this Board?
Does the Board consider the organization to be in good financial health? Do the Board and management have clear strategies to sustain/improve the financial health?	If the organization has annual operating expenses above \$1 million, the lack of an audit or review may indicate under-investment in financial oversight.
Has the organization experienced any allegations of financial mismanagement?	Do the Board's perceptions about financial health seem reasonable in relationship to the financial statements (see list of info you should request)? Do the strategies to sustain/improve financial health seem consistent with the strategic plan, the role and composition of the Board, and the assessment of the external environment?
	Do you sense an open attitude and Board commitment to financial oversight? Has the organization changed its practices or increased its investment in financial oversight since the allegations arose?

Questions to Ask	Evaluating the Answers
<p>How recently has a professional reviewed the risk management policies and procedures and adequacy of insurance coverage for the organization?</p>	<p>Do you perceive the organization as high risk? Factors could include:</p> <ul style="list-style-type: none"> <li>• work with children,</li> <li>• transport clients,</li> <li>• work with extremely vulnerable adults,</li> <li>• medical and mental health services,</li> <li>• very low paid staff working with high risk populations,</li> <li>• inadequate resources for supervision and staff development,</li> <li>• work on highly controversial issues.</li> </ul>

Background written info you'll need:	What to look for:
Website address	<ul style="list-style-type: none"> <li>• Review the website for consistency with the description you've been given and for connection with your values and priorities.</li> </ul>
Strategic plan/annual report	<ul style="list-style-type: none"> <li>• Review the strategic plan/annual report for consistency with the description of Board role and funding strategy you were given above.</li> </ul>
Annual audit or review or a copy of the 990 if the organization is not audited/reviewed	<ul style="list-style-type: none"> <li>• Review the audit/review or 990 to learn about net worth, including the portion that is restricted either permanently or temporarily.</li> </ul>
Current financial statements	<ul style="list-style-type: none"> <li>• Review the current financial statements to be sure Board members see the Balance Sheet as well as the Statement of Activities (Revenues and Expenses) with a comparison to budget.</li> </ul>
	<ul style="list-style-type: none"> <li>• Determine whether the organization is operating at a deficit or profit position during the current year. Determine whether the budget appears to have been realistic. Look for notes to financial statements which would help Board members understand what strategies management is recommending to improve the financial condition of the organization.</li> </ul>

	What to look for:
Background written info you'll need: Copies of the Board minutes for the past few months	<ul style="list-style-type: none"> <li>Review the Board minutes to see if the reflect the use of Board time which was described to you above. Also, notice whether the minutes provide a clear record of Board action and document that the Board is following its conflict of interest policy.</li> </ul>
Conflict of Interest Policy	<ul style="list-style-type: none"> <li>Are By-laws understandable? Do they match what you have been told about the way the Board works?</li> </ul>
By-laws	<ul style="list-style-type: none"> <li>Find out whether the organization is exempt under Section 501 (c) (3) and whether it has an Advance Ruling or a Definitive Ruling on its status as a Public Charity. If it has an Advance Ruling, ask who is monitoring compliance to be sure that the organization will qualify as a Public Charity at the end of its Advance Ruling period.</li> </ul>
Proof of tax exempt status	<ul style="list-style-type: none"> <li>Review the Board organization chart to see if it is clear and corresponds to the info you've been given. Think about whether any of the committees interest you.</li> </ul>
Board organization chart which shows committees	<ul style="list-style-type: none"> <li>Review the Board and officer list to see if you think the composition of the Board is appropriate for the organization's size, type of services, and funding strategy.</li> </ul>
List of Board members and officers	<ul style="list-style-type: none"> <li>Review the staff organization chart to be sure you understand where the organization is putting its resources. Use this chart as part of your assessment of whether the organization is at high risk.</li> </ul>
Staff organization chart	



## Board Resources on the Web

### **TACS Helpline Online**

Frequently Asked Questions on Board of Directors from the TACS Nonprofit Helpline

<http://www.tacs.org/qa/qa.asp?tpID=3>

### **BoardSource**

Board development for nonprofits. Info on trainings, publications and answers to frequently asked questions

<http://www.boardsource.org>

### **Alliance for Justice**

For advocacy groups working in the public interest. A great resource for information on lobbying and c3/c4/PAC relationships. They publish a series of very helpful booklets.

<http://www.afj.org>

### **Nonprofit Risk Management Center**

Resources, publications, and articles about protecting your organization.

<http://www.nonprofitrisk.org>

### **Oregon Department of Justice, Charitable Activities Section**

Forms, guides, and database of Oregon charities.

<http://www.doj.state.or.us/ChariGroup/welcome2.htm>

### **Washington Charitable Solicitation Program**

Monitors charitable solicitation. Site has forms and FAQs.

<http://www.secstate.wa.gov/charities>

### **Internal Revenue Service**

User-friendly site providing information relevant to nonprofits, including information on 990's, permitted activities, etc.

<http://www.irs.ustreas.gov/charities/index.html>

## Key Financial Tools

- Comprehensive, organization-wide **budget**, with appropriate cost centers for revenues and expenses
- Monthly and year-to-date **comprehensive financial statements**, including Balance Sheet, organization-wide Revenue and Expense Statement, and cost center revenue and expense statements which allow comparison of actual revenues and expenses to budget, and Statement of Cash Flows
- **Key program performance indicators** which are linked to financial outcomes
- **Key performance indicators for fund development efforts**
- Analysis of the **contribution to overhead** of each program and/or funding source
- Analysis of **fixed and variable costs**
- ~~Quick Ratio~~—measures of liquidity
- **Historical trend analysis** and clearly established **targets** for:
  - Cash reserves
  - Accounts receivable collections
  - Net assets
  - Income diversification and ratio of earned to contributed income

## Budget and Financial Management Terminology

Term	Definition
<b>Budget</b>	A projection or plan for income and/or expenses.
<b>Financial Statement</b>	A report drawn from accounting records of financial activity which has already occurred. Some financial statements compare revenue and expense activity as recorded in the accounting records with revenue and expense projections contained in the budget.
<b>Fiscal Year</b>	A 12-month period selected by an organization. Corporations cannot change fiscal years without informing the IRS. Foundation and government funders frequently utilize different fiscal years than the agencies they fund, creating accounting and reporting difficulties for the funded agencies.
<b>Organizational Budget</b>	Projected income and expenses for a defined period (usually the organizations fiscal year) for the operation of the <i>entire</i> organization. Can be presented on a fund and/or functional basis.
<b>Grant Budget</b>	Projected income and expenses for a particular project funded by a grant. The projected income and expenses are for a defined period. The grant period may or may not correspond to the agency's fiscal year. For example, an agency with a July 1 through June 30 fiscal year may receive a grant for a 12-month period beginning January and ending December.
<b>Accrual Basis Accounting</b>	A system of accounting in which income is recorded when it is earned (rather than when it is received by the group) and expenses are recorded when they are incurred (rather than when the expenses are paid).

Term	Definition
Cash Basis Accounting	A system of accounting in which income is recorded when it is received by the group and expenses are recorded when they are paid. Cash accounting data can lead to errors in budget projections. If an agency is currently unable to meet all its debts, the expense figure from cash basis accounting will <i>not</i> reflect the full cost of providing services and may lead to underestimating costs in budget projections.
Zero-Based Budgeting	A process for developing organization or project budgets which begins with zero funding allocated to any purpose and constructs the budget by justifying the need for each item including staff and non-personnel items.
Incremental Budgeting	A process for developing budgets which assumes maintenance of present expenditure patterns as a starting point and adjusts each item for inflationary increases or exceptional changes.
Cash Flow Budget	A projection of anticipated cash receipts and cash disbursements for a defined period, usually three to six months. Cash flow budgets are used primarily to manage cash, i.e. assure that sufficient cash will be on hand to meet demands and that excess cash is properly invested. Cash flow budgets focus on timing—when during the year funds will be received and required. This contrasts with organization or grant budgets which are typically prepared using an accrual concept of projecting costs and revenue associated with services to be provided during the budget period, regardless of the timing of receipts or disbursements.

## Key Budget Terms

### 1. Direct Costs

Costs which can be directly attributed to performing a specific function (program, administration, fund raising).

*Example:* In an organization which offers three programs ( emergency services, senior services, and counseling), the costs associated with employing a case manager who does only emergency services is a direct cost of the emergency services program.

### 2. Indirect Costs

Costs which cannot be directly attributed to a specific function. An estimating method is used to allocate indirect costs to the functions which benefit from the indirect cost item.

*Example:* The cost of renting a facility to house multiple programs as well as administrative and fund raising staff. The rent expense could be allocated to the programs, administration, and fund raising functions by creating a formula based on square footage or based on FTE's (full time equivalent staff positions).

### 3. Administration Costs

Costs of providing overall management and strategic planning for the organization including costs such as:

- Accounting
- Audit
- Board support
- Strategic planning
- Overall organization public relations
- Human resources administration

#### 4. Fund Raising Costs

Costs of seeking and obtaining contributions, including staff costs for planning and implementing fund raising activities. Fund raising costs include:

- Special event costs
- Direct mail solicitation costs
- Major donor prospecting and solicitation
- Newsletters which include fund raising appeals (special rules apply)
- Foundation and corporate grants research and submission of unsolicited proposals

#### 5. Cost Pools

A budget and accounting technique in which costs associated with a particular function (administration, facilities, office overhead, etc.) are collected in one or more cost centers. The total cost in each cost center is then allocated by formula to each program, administration, or fund raising function which benefits from the cost pool function activity.

*Example:* An organization collects administrative costs into an Administrative Cost pool and allocates the total pool to each program and fund raising cost center by a formula based on the % of FTE (full time equivalent positions) in each program or fund raising cost center.

#### 6. Line Item Allocation of Costs

Application of an allocation formula to a specific line-item cost. This is an alternative to the cost pool method.

*Example:* An organization determines that all costs associated with a shared facility should be allocated based on the percentage of FTEs assigned to each function. Instead of pooling all the facility related costs into an indirect cost pool, the organization allocates each facility cost line item individually. No cost pool appears in the budget. Instead, the amount of rent, utilities, maintenance, etc. which appears in each program, administrative, or fund raising cost center is computed by an allocation formula applied to their respective line items.

#### 7. Cost Allocation Plans

A written plan which describes the cost centers which the organization will use for budgeting and accounting and the methods of cost allocation which will be

utilized to allocate costs which cannot be directly attributed to specific program, administrative, or fund raising cost centers. The plan describes the formulae which will be used to allocate both cost pools and individual line items. Different allocation formulae may be used for different types of costs.

The plan should include the rationale for the selection of each cost allocation formulae, and the basis on which it has been computed.

*Example:* An organization which has decided to use percentage of square feet as the basis for the allocation of facilities costs, would include and create a supplemental schedule for the cost allocation plan every year. The supplemental schedule would list the name of each facility, its location, and the total number of square feet in the location. It would also list the number of square feet assigned to each program, administrative, or fund raising cost center and the number of square feet considered to be "common space". The resulting allocation formula would be computed and the calculation leading to the amounts shown in the budget would be included.

If the organization changes the use of the space during the year, the cost allocation should be revised to show the change in utilization and the resulting change in formula.

## Multiple Entity Relationships Responsibilities, Potential Liabilities, and Accounting Treatment

### I. Core or Parent Entity

The primary nonprofit affordable housing organization.

### II. Directly Owned Projects

Projects owned by the Core or Parent corporation itself.

#### Responsibilities of the Core Entity

- Asset Management
- Debt service
- Compliance with funder and lender requirements

#### Potential Liabilities to the Core Entity

- All owner liabilities
- Penalties for non-compliance

#### Accounting Treatment by the Core Entity

- All Assets, Liabilities, Net Assets, Revenues, and Expenses must be reported in the core entity's financial statements (Balance Sheet, Statement of Activities, Statement of Cash Flows).
- If outsourced property management firm prepares financial statements for the project, the core entity must incorporate data from the property management firm's statements into core entity financial statements.
- Core entity is responsible for the accuracy of the financial information about the project even if financial info is prepared by property management firm.

### III. Nonprofit Single Asset Entities

Projects for which the core entity served as sponsor/developer in which the funding source required or the core entity decided to place ownership of the project within a nonprofit corporation other than the core entity. LIHPRA and most 202 and 811 projects (prior to

changes allowing partnerships with for profits for 202 and 811 projects) are typically nonprofit single asset entities.

#### **Responsibilities of the Core Entity**

- Depends on funder /lender requirements
- Generally includes asset management or some form of oversight

#### **Potential Liabilities to the Core Entity**

- In general, obligations of the nonprofit single asset entity are specific to that entity and the core entity is not considered liable for debts or acts of the single asset entity.
- Some funding/lending agreements may create compliance obligations for the sponsoring core entity.

#### **Accounting Treatment by the Core Entity**

- See SOP 94-3 for requirements for consolidation of financial statements.
- If the core entity has both control and economic interest in the single asset entity, consolidation of financial statements is required by GAAP.
- If consolidation is required, the payment of asset management fees by the single asset entity and the receipt of asset management fees by the core entity, is eliminated in the consolidation adjustments.
- If the relationship between the core entity and the single asset entity does not meet the requirements of SOP 94-3 – either because the core entity lacks control or does not have economic interest – financial statements are not consolidated.
- To fulfill asset management responsibilities, the core entity needs to receive financial statements from the single asset entity.
- If the financial statements of the core entity and the single asset entity are not consolidated, the core entity reports fees it is paid or owed for Asset Management as revenue, and reports the costs of providing asset management services as expenses.

## **IV. Partnerships and Limited Liability Corporations Involving For Profit Partners/Shareholders**

Low Income Housing Tax Credit projects are generally structured as Limited Partnerships or Limited Liability Corporations. The nonprofit core entity is the general partner. The for-profit investors are limited partners. Some newer 202 and 811 projects are structured as partnerships between the sponsoring core entity nonprofit and for-profit limited partners.

#### **Responsibilities of the Core Entity**

- As General Partner, the core entity is responsible for overall management and compliance with all LIHTC and other funder/lender requirements.
- General Partner responsibilities include provision of adequate asset management. Although some general partners outsource asset management services, they remain responsible for asset management and compliance.

### **Potential Liabilities for the Core Entity**

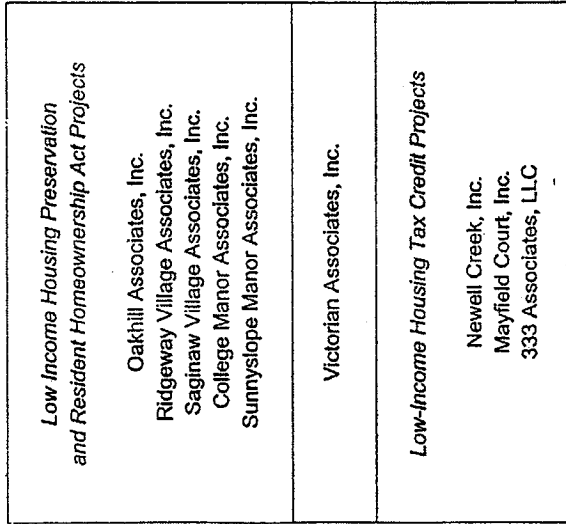
- In general, the Partnership/LLC is responsible for its own obligations.
- As General Partner, the nonprofit core entity is potentially liable to the limited partners for failure to keep the project in compliance with LIHTC requirements – if the limited partners lose their tax benefits because the project fails to comply with requirements, the partners have recourse against the core entity as general partner.
- Some partnership agreements require the core entity as general partner to supply cash in the form of loans to operate the project when the project generates insufficient cash flow.
- In some partnership agreements, repayment of debt to the core entity is contingent upon achieving specified levels of net cash flow. If projects perform poorly, the value of the core entity's receivable may be impaired.

### **Accounting Treatment by the Core Entity**

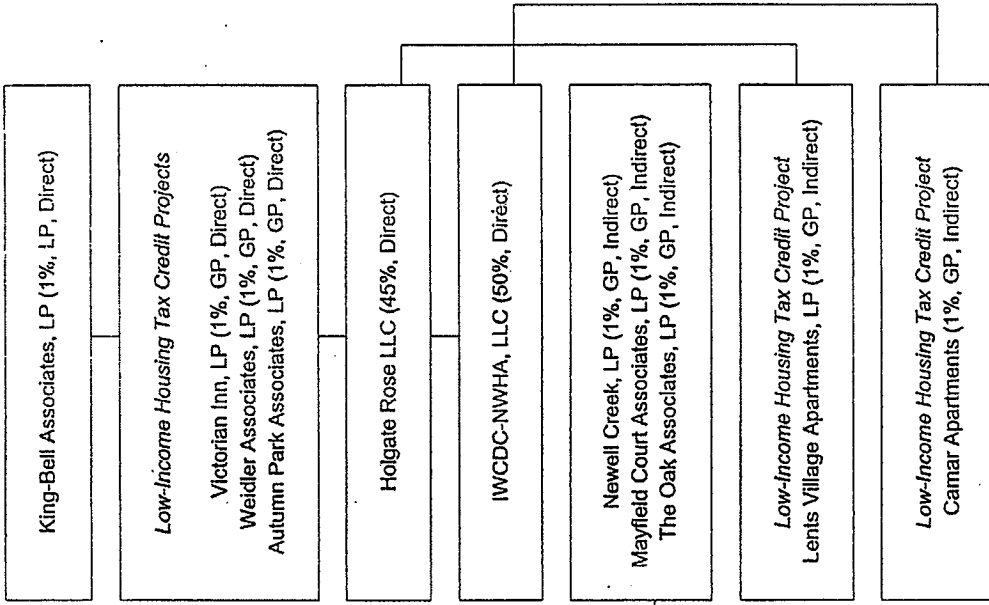
- Partnerships in which the nonprofit core entity has a very small percentage of ownership (typically 1%) do not meet the requirement for consolidation.
- Core entity's account for investments in partnerships/llcs using the equity method – recording their net equity investment in the partnership as an asset.
- The core entity adjusts its equity investment in the partnership to reflect its share of the net income or net losses reported by the partnership.
- The core entity records loans and cash advances provided to the partnership/llc as assets (notes or advances receivable).
- Typically the partnership/llc will agree to pay interest for funds provided by the nonprofit core entity as loans or advances. The core entity records the interest as revenue and the partnership/llc records the interest as expense. If the partnership is not able to pay the interest due to the core entity, the core entity records its right to receive the interest as Interest Receivable and the partnership records it as Interest Payable.
- If the partnership/llc project performs poorly over an extended period, the core entity may need to consider reducing the value of the receivables it has established for loans and advances, and for interest receivable, from the partnership/llc to reflect uncertainty of collection..
- Consequently, the core entity must consider the performance of the partnership/llc as having a potentially material impact on the financial position of the core entity.

# Northwest Housing Alternatives

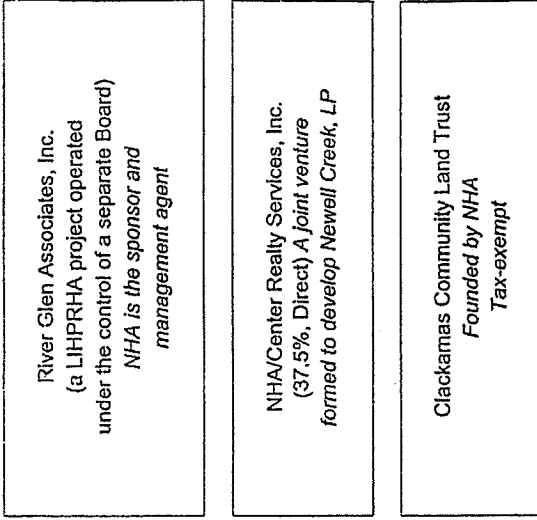
**Control/100% direct ownership  
Full consolidation accounting**



**Equity method accounting**



**Disclosure only**



GP = general partner  
LP = limited partner

Direct = NHA ownership is direct

Indirect = NHA ownership is through another entity

## Key Single Asset Entity Related Terms

### Single Asset Entity Property

A property developed to provide housing for low income individuals which HUD (the federal department of Housing and Urban Development) has required to be owned by a separate nonprofit corporation. Low Income Housing Preservation Rehabilitation properties (LIHPRA) properties and HUD 202 projects are examples. While these properties are typically developed by a CDC or other nonprofit affordable housing organization, they must be owned by a separate nonprofit corporation which has as its sole purpose owning and maintaining that single property.

### Nonprofit Corporation

A corporation created under state law which has no owners. Nonprofit corporations may "make profits," i.e. have income greater than expenses, but all profits must remain in the corporation and be used for its purposes.

### Tax Exempt Corporation

A nonprofit corporation which has been granted tax exempt status by the IRS. Nonprofit single asset entity corporations apply for, and presumably receive, tax exempt status. This means they will not be liable for federal corporate income tax. It also means that donors may deduct contributions to these corporations as charitable contributions.

### Community Development Corporation (CDC)

Nonprofit corporations working in low income communities which meet specific state law requirements for purpose, activities, and inclusion of community members on their boards of directors. CDCs can hold many properties within a single corporation

### Property Management Services

Property management services typically include renting units, managing security and repairs, collecting rent, and dealing with problems on the property including disruptive tenants, etc. Property management services can also include obtaining and maintaining documentation required by HUD. Property management may also include maintenance of complete financial records and preparation of financial statements for the property. Property management can be provided by staff employed by the owner of the property, or by contracting with a property management firm.

### **Asset Management**

Asset management includes oversight of the work of the property manager or property management firm, identification of major maintenance or rehabilitation needs, contracting for major maintenance/rehab, and oversight of performance of contractors. Many Single Asset Entities will contract with CDCs to provide asset management.

### **Board of Directors**

The group of individuals responsible for governance and oversight of a nonprofit corporation. Oregon law gives the board of directors authority for corporate decision-making, and holds individual directors responsible for exercising care in their oversight of the affairs of the corporation.

### **Directors and Officers Errors and Omissions Insurance**

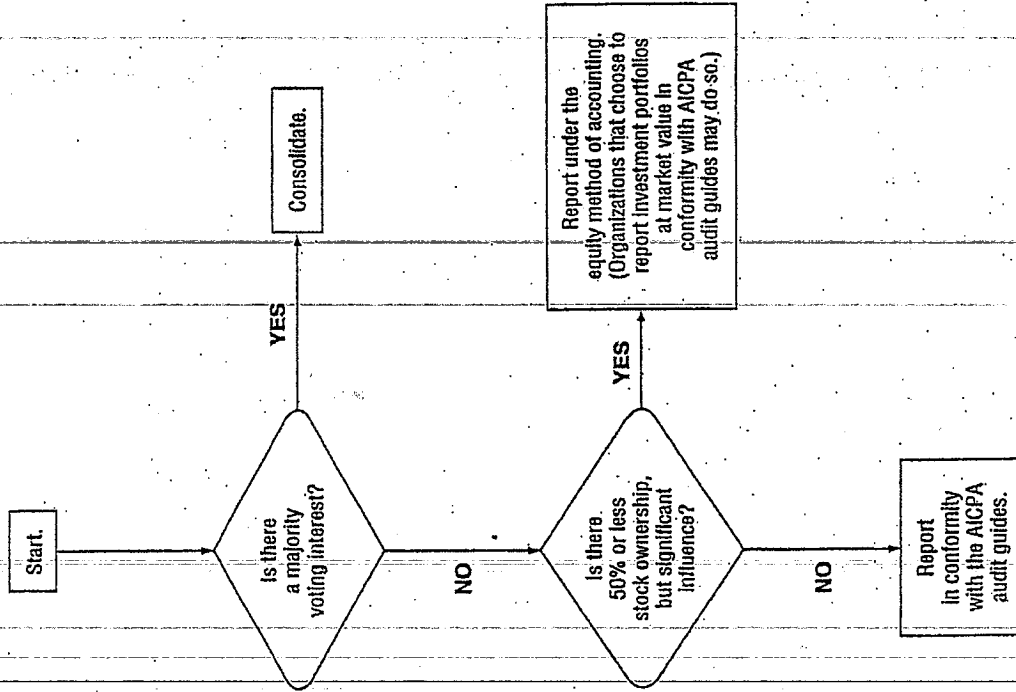
A type of insurance which protects members of the board of directors of a nonprofit corporation from damages which arise out of their service as board members. This type of insurance covers the cost of defending the board members if they are sued for their errors or failure to act as board members, and will also cover damages if the court rules against the board members, except in specific situations in which the statute prohibits coverage.

### **HUD Audit Requirements**

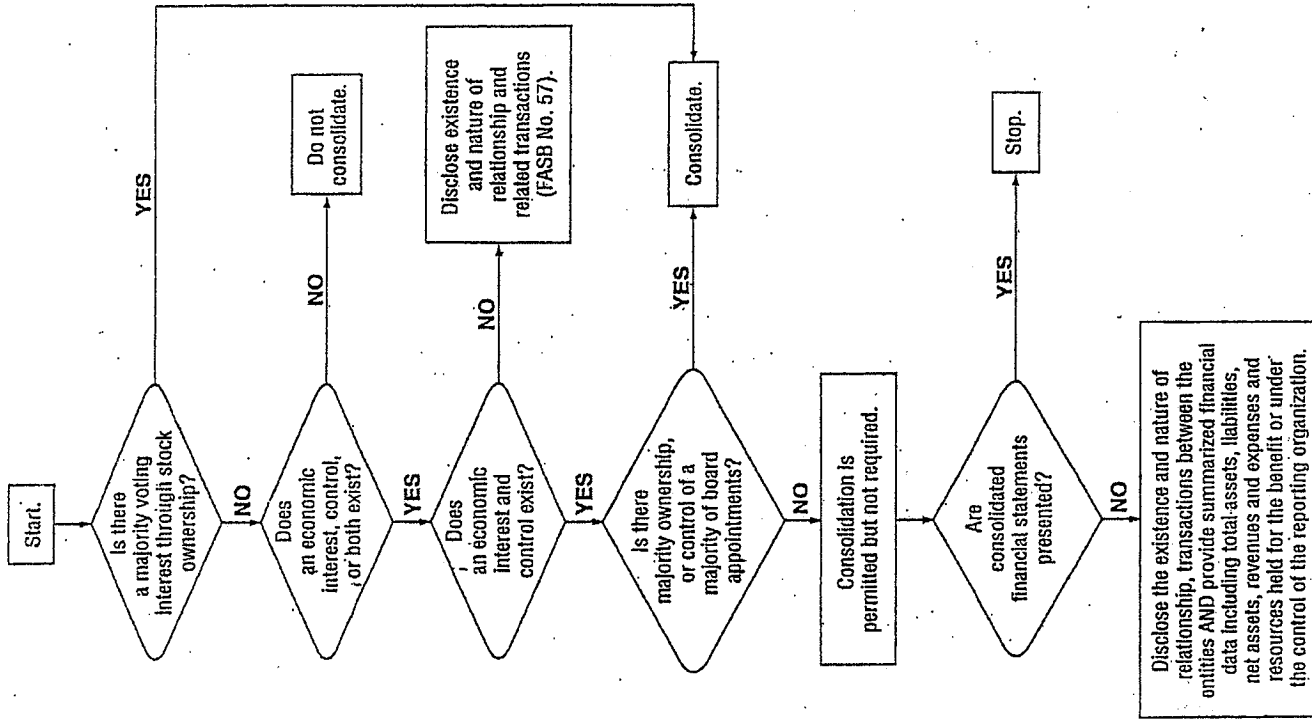
Organizations receiving funding from HUD are required to have an independent audit under HUD rules.

Flowcharts and Decision Trees<sup>1</sup>

Ownership of a For-Profit Entity



<sup>1</sup>The flowcharts and decision trees summarize certain guidance in this SOP and are not intended as substitutes for the SOP.



# Affordable Housing Financial Management Challenges

## Budget Challenges

### I. Multiple Functions

Affordable housing organizations typically engage in multiple functions: housing development, property management, tenant services, business district revitalization, and other community economic development activities. Additionally, like all nonprofits, they engage in management/administration, and fundraising functions.

While each of these functions is quite distinct from the others, a comprehensive organization-wide budget is still needed. Consequently, affordable housing organizations need to do functional budgeting which goes beyond simply listing the categories of income and expense which are expected and use a grid or matrix format to describe both line item and function for each anticipated income or expense.

### II. Cost Allocation

Cost allocation is a budget and accounting method which is used to identify costs according to the function which the cost supports, as well as according to line item description (salaries, supplies, etc.). Direct costs are those which can be directly attributed to a specific function—for example, the cost of paying a property management fee is clearly a cost of the property management function, and the cost of acquiring a property is clearly a cost of property development.

Indirect or shared costs are costs which benefit multiple functions. Not all shared or indirect costs are administrative costs. For example, if multiple programs are housed in one facility, the occupancy cost of that facility is a shared cost which should be allocated among all the functions which are carried out in the facility.

For budget purposes, you will want to assign all direct costs to their appropriate functions and then use a cost allocation formulae to allocate indirect costs. Be sure that the way that you allocate costs in the budget is the same way which you will use them in the accounting system.

### III. Dealing with Restricted Grant Funds

If you anticipate receiving grants, be sure that you reflect any restrictions which will be attached to them by your funders in your budget plan. For example, if a foundation will award \$10,000 to allow you to provide enhanced tenant services such as coordination with social service agencies, reflect both the grant income and the costs associated with providing the services in your "Tenant Services" function. If a funder will give you a grant to purchase a property for development, include it in the "Housing Development" function.

Some funders will provide "operating support" with the direction that your affordable housing organization is to decide how to use the funds. Your budget should reflect your decisions. If you decide to split the "operating support" into several categories, using some for administration, some for housing development, and some for community economic development, your budget will show the total grant split into the different functional income sections.

### IV. Borrowing and Debt Repayment

Affordable housing organizations must integrate the kind of projection done in pro formas for new housing development projects into their comprehensive organization-wide budgets, as part of the housing development function. This is particularly challenging because most housing development involves borrowing funds which will then be repaid, with interest, with proceeds from rental income or through sale of homes in home ownership programs.

However, from an accounting standpoint, borrowing money is not a source of income, and repaying debt is not an expense. Instead, borrowing money creates a liability and paying it back reduces the liability. In a pro forma for a housing development, borrowing is considered a source of funds, and debt repayment is considered a use of funds.

Because affordable housing organizations need to have their organization-wide budget correspond to their accounting system so that financial statements can compare what actually happens to what was planned, they must deal with the impact of borrowing and repaying debt in the budget in a way which will not conflict with good accounting practices.

One way to accomplish this is to create a section called "cash adjustments" in the budget format. Generally this section is placed below the listing of expenses and its total. In the "cash adjustment" section, the amounts which will be borrowed to complete projects can be attributed to the housing development function, and the amounts of debt which must be repaid within the year can be attributed to the property management function. Note that the interest portion of debt repayment will be listed in the expense section of the budget because interest is an expense.

## V. Budgeting for Development Costs

It is often challenging to predict exactly when a project which is in your development pipeline will actually be completed, or even when construction will begin. For purposes of putting an organization-wide budget together, you will have to decide which specific development projects will be underway during the fiscal year, and make some assumptions about their timing. Be sure to write down those assumptions so that if reality doesn't conform to your plan, you will be able to revise the Housing Development component of your budget accurately.

In your accounting records you will want to track the pre-development and development costs for individual projects separately so that you have documented the actual cost of bringing the project to completion. Similarly, you will want to budget on a project by project basis, and then combine all the projects which will be underway into totals for the Housing Development component of your budget. Be sure to keep the schedule which shows the plan for each project.

Some pre-development costs can't be attributed to any specific project or are invested in projects which don't come to fruition, so you may need to budget some amounts in your Housing Development budget which are "general" as opposed to attributed to specific projects.

## VI. Budgeting for "Developer Fees"

Developer fees are the amount which the developer is allowed to retain after all other costs of development are met. In a project that is entirely debt financed, developer fees amount to the portion of borrowed funds which you have not had to pay out to contractors or others to complete the project. In a project which combines debt with contributed amounts (grants, equity contributions, etc.), it is sometimes difficult to say whether the developer fee is being funded through debt or through the contributed or equity portion of the project.

While many affordable housing organizations rely upon developer fees to fund portions of their operations, if the developer fee is funded through debt, it is not income and should not be included in the revenue portion of the budget. It is debt and should be included in the "cash adjustment portion" discussed in the previous section on borrowing and debt repayment. If the developer fee will be funded through grants, it will be included in the grants line of the budget and shouldn't be double counted by being listed again. If it will be funded by grants and you want to see it separated out from the other grants, subtract the amount of the developer fee from the grants line item, and list it as "grant funded developer fee" in the income section.

One very important policy decision for affordable housing organizations is what use will be made of developer fees. Will your affordable housing organizations use developer fees to subsidize components of your budget which are projecting losses or will you retain the

developer fees to use as seed money to undertake new development projects, or limit its use to paying for staff that do housing development? Your board will need to set a clear policy to guide your budget practices.

## VII. Depreciation

Depreciation is an expense even though no cash is paid out to cover it. Consequently, you will want to include depreciation in your schedule of expenses for each property. However, because depreciation expense does not use cash, you will also include it in the "cash adjustment" section as if it were a source of cash. In other words, you are acknowledging that although your pro forma showed that the property could generate enough income to cover depreciation expense, from a cash flow perspective, it doesn't have to generate cash to cover the depreciation.

## VIII. Budgeting for Home Sales

Affordable housing organizations that sell the homes they build will budget for "home sales proceeds" as an income item in their "housing development" function. Most of the costs of building the homes will be reflected in the "cash adjustment" section. Just as in the discussion of developer fees for rental properties, your affordable housing organizations will need to set a policy about the use of your "profits" from home sales. Will you use them to subsidize administration or other operating programs or will you reserve them to use as seed money for future housing development projects?

## IX. Budgeting for Property Management Functions

Your "property management" function budget should reflect the income you expect to realize from renting properties and the expenses which you must pay to operate the properties. You will need to use the "cash adjustment" of your budget to deal with the debt service (principle repayment), depreciation, contributions to reserves, and major rehab costs.

Create your "property management" function section by analyzing and scheduling each of your rental properties. Then combine the schedule of individual properties into a master schedule for use in the organization-wide budget.

Project the actual income and expenses you anticipate for each property. Remember to adjust the projected rental income to reflect your predictions about vacancy rates and losses through non-collection. Don't simply use the projected rental income that was included in the pro forma for development of the property, consult your prior year accounting records and consider the actual circumstance to estimate vacancy rates and collection problems.

Similarly, use your past accounting records and detailed knowledge of the condition of the properties to project expenses for the year, including utilities, insurance, repairs, etc. If you contract for property management, be sure to include this expense. If you have your affordable housing organizations staff do the property management, be sure to include the cost of this staff time, including taxes and benefits, and associated overhead costs, in your "property management" function budget.

## **X. Pro Formas and Their Relationship to the Budget**

Applications for financing for development projects require creation of a pro forma which projects the operating income and operating costs of the proposed property. Generally, the income section is comprised of projected rental income adjusted for losses through vacancy and the operating cost section includes property management fees, utilities, debt service, and all other costs which must be met by the projected income in order for the project to "pencil," i.e. demonstrate financial viability.

While this information will be useful for budgeting the property management function for a property before you have had a year's experience operating it, it should not be used as the basis for the property management budget for subsequent years. Instead, base the projected budget on analysis of your actual experience reflected in the prior year's financial statements, adjusted for any changes which you anticipate.

The pro forma also includes information about the actual cost of acquiring and developing the property and identification of all the grant and loan sources which will be utilized to meet these costs. This information will be useful for constructing the "housing development" function in your annual budget. Be sure you are using the most recently revised version.

## **XI. Budgeting Contributions to Reserves**

Many funding sources and lenders require that as owner of the property you make an annual contribution to a reserve to be used to fund major repairs or rehabilitation of the property. You may be required to list these contributions to reserves as an expense on budget documents you submit to these funders/lenders. However, because you want your annual budget to correspond to your accounting records, include these contributions to reserves in the "cash adjustments" section of the budget. You won't actually be recording them as expenses in the accounting records even if you will physically transfer cash into a specific reserve cash account. However, doing this transfer will require having the cash available to put in the reserve account, so it should be included in the "cash adjustment" section of the budget.

If part of your property management plan for the year is to do major repairs or rehab on a property, and you will pay for the work by using funds from the reserve fund which you have established for the property, you will want to include this part of your plan in the "cash adjustments" section as well.

## XII. Cash Flow Projection

In addition to your comprehensive operating budget, you will need a cash flow projection which projects when cash will be received and when it must be disbursed. This projection is particularly important for organizations which receive some of their operating funding on a reimbursement basis which requires that the organization pay out cash and then submit requests for reimbursement. In most cases, you will want to separate the cash flow projection for operations from the ones you are doing for specific development projects. If you will have to use operating cash for development activities or development cash for operating activities, you will need to integrate the two projections.

# Affordable Housing Financial Management Challenges

## Accounting Challenges

### I. Chart of Accounts Structure

The Chart of Accounts should parallel your budget categories. It should set up cost centers (departments, divisions) for each distinct function used in your budget (property management, housing development, tenant services, administration), and for any restricted funds which you have budgeted as a separate function. The Chart of Accounts must include Balance Sheet accounts (assets, liabilities, net assets) as well as revenues and expenses

### II. Cost Allocation

Use the same method for cost allocation in the accounting system as you used in your comprehensive annual budget. Consider structuring cost pools to streamline the accounting process. For example, set up a department for "administrative costs" which includes all the line items in which administrative costs occur (salary, professional fees, occupancy, etc.) and then allocate a share of the total administrative costs to each function at the end of each month. Create a written description of your cost allocation plan which explains which costs will be allocated, and the basis for the allocation method.

### III. Pre-Development Costs

Pre-development costs are the costs of exploring the feasibility of various projects. If a project eventually goes forward, it may be possible to "capitalize" these costs, i.e., include them in the record of the investment made in the property. If the project doesn't go forward, the pre-development costs are just part of the operating costs of the housing development function. It is probably easiest to track pre-development costs by setting up a department (cost center) for them in the structure of your Chart of Accounts.

### IV. Development Costs: Acquisition, Construction, Etc.

You will need to maintain a complete record of all costs of acquiring and developing each property. These costs include both amounts which your organization disburses directly from its own cash accounts, and any disbursements made on behalf of your organization, for example, direct payments from a lender or grantor to contract for work done on a project.

You will need a system which tracks costs as they are incurred and compares the costs incurred to the development budget for each project.

## V. In-Kind Contributions to Development Projects

If you receive donated materials or services which make a material contribution to a development project, you will need to record them in the accounting system. Establish an "in-kind contributions" revenue account to record the increase in value in the property which results from the contribution. You will balance the journal entry, which records the contribution income, with an entry to the asset account for this property, reflecting the increase in your investment in the property. Be sure to maintain back-up documentation about the nature of the contribution and the basis for the dollar amount you have recorded as an in-kind contribution.

## VI. Depreciation and Accumulated Depreciation

In addition to creating "depreciation expense" accounts in the expense section of the Chart of Accounts and "accumulated depreciation" accounts in the assets section, you will need to maintain a detailed depreciation schedule which supports the entries posted to these accounts. You'll need a depreciation schedule for each property, including both the amount of your initial investment and of any major rehabs done to the property, the amount of depreciation recorded each year, and the resulting accumulated depreciation for each property (sum of all depreciation expenses recorded over the life of the property). In addition to the property by property depreciation schedules, you'll need a depreciation schedule for all your office equipment and any other fixed assets.

## VII. Recording Debt and Debt Service

Record all debt as it is incurred. To do this, the accountant must receive copies of all loan and line of credit agreements once they are executed. If loan proceeds will be paid through draw downs, copies of requests for draw downs must be given to the accountant to record. Copies of closing agreements must also be provided. In some lending situations, the amount of loan funds disbursed will vary from the draw down requested. These variances can be correctly recorded through adjusting entries.

## VIII. Non-Recourse Debt

Some lending agreements state that the debt is "non-recourse" meaning that the lender's ability to collect repayment is significantly limited. In some cases, the lender indicates that it does not intend to require repayment. You will probably need advice from your auditor and

possibly from an attorney about whether to record "non-recourse" debt as a liability or a contribution.

## **IX. Grants with Contingent Liabilities**

Some grants to acquire or rehab property come with a contractual requirement which states that in the event that the property is no longer used for its intended purpose, or the organization sells or otherwise transfers the ownership of the property, the grantor is entitled to repayment of the grant funds. In most instances, you will still record the grant as a grant but include a note disclosing the existence of this contingent liability in the notes to the financial statements which are part of your audit. In order to handle such grants properly, you will need to be sure the accountant has a copy of the grant agreement and discuss the treatment of the grant with your auditor.

## **X. Developer Fees**

The term "developer fee" is used in several different situations, each with its own accounting treatment.

- If your organization is acting as developer for a separate entity, and receives a "developer fee" for the services which you provide to that separate entity, then the "developer fee" should be recorded as revenue.
- If your organization is developing a rental project with a combination of grants and loans, and one of the grants is explicitly designated to fund a "developer fee" for your organization, record this amount as grant income. You could use an account called "grant funded developer fee" if desired.
- If you have included a proposed "developer fee" in the pro forma for a development project and your lender(s) have approved it, you will be permitted to drawn down loan proceeds to cover the "developer fee" (typically at the end of the project when other costs are met). These amounts received from lenders are loan proceeds and should be recorded as "loans payable," a liability. If you have used the Cash Adjustments approach to budgeting and have shown these loan-financed "developer fees" as a cash adjustment on the budget, you can use the information which is recorded in the liability section of your general ledger, "loans payable," to report the amount of "developer fees" collected for comparison with the budget amount.

Incidentally, if you are developing properties for sale (home ownership), you will not have developer fees. Instead, you will have "gains on the sale of homes" which provide compensation for your efforts as developer.

## **XI. Tenant Deposits, Pre-paids, Rents Receivables**

Record all **tenant deposits** in asset accounts. If you are collecting several different types of deposits, use separate accounts. You will need to maintain subsidiary accounts for each tenant which total to the control account for each type of tenant deposit in the general ledger. If you refund a tenant deposit, you will reduce the balance of the tenant deposit account (as well as recording it in the subsidiary record). If you decide to keep the tenant's deposit (i.e., to cover failure to clean or damages), you will need to use a journal entry to reduce the amount of the tenant deposit asset account, and record the amount in a revenue account (payments for damages, etc.).

Record **pre-paid expenses** in asset accounts, for example, annual insurance premiums. Create an amortization schedule for each pre-paid expense to use as the basis for journal entries which reduce the amount in the pre-paid expense asset account and increase the correct expense account (for example, insurance expense) as you use up the value of the pre-paid item.

**Rents receivable** are the amounts tenants owe your organization. Your lease agreements will establish when rent payments are due. You will need to decide whether to use a system in which all rents are initialed recorded through an entry to Rental Income and Rents Receivable and all payments are treated as a reduction in Rents Receivable or a system in which only the amounts not paid by the due date are recorded through a journal entry to Rental Income and Rents Receivable and all other payments are simply attributed to Rental Income at the time of collection. The important result is that you have a complete record of each tenant's payments and any amounts still owed which can be tied to the Rents Receivable account in the general ledger.

## **XII. Property Management Accounting**

Property management accounting requires tracking income and costs on a property by property basis. Specific property management software is used by for-profit property managers and may work well for your organization. Whether you use a specific property management software package, develop your own database or spreadsheet application, or use cost centers in your general ledger, you will want to establish a system which tracks revenues and costs on a property by property basis.

## **XIII. Dealing with Reports from Independent Property Management Firms**

Many nonprofits have some or all of their rental properties managed by an outside property management firm. Typically, the property management firm provides monthly financial statements for each property. Your organization needs to have complete financial information, including assets, liabilities, and net assets, as well as revenues and expenses. Frequently, property management firm accounting systems are designed to report on a cash

basis, and only report rents collected and cash disbursements, including both debt service payments stated as a lump sum, without separation of interest and principle. If this is the type of reporting you will be receiving, you may choose to post the information provided into your general ledger on a summary level on the cash basis, and then prepare and post year-end adjustments.

#### **XIV. Community Economic Development Activities**

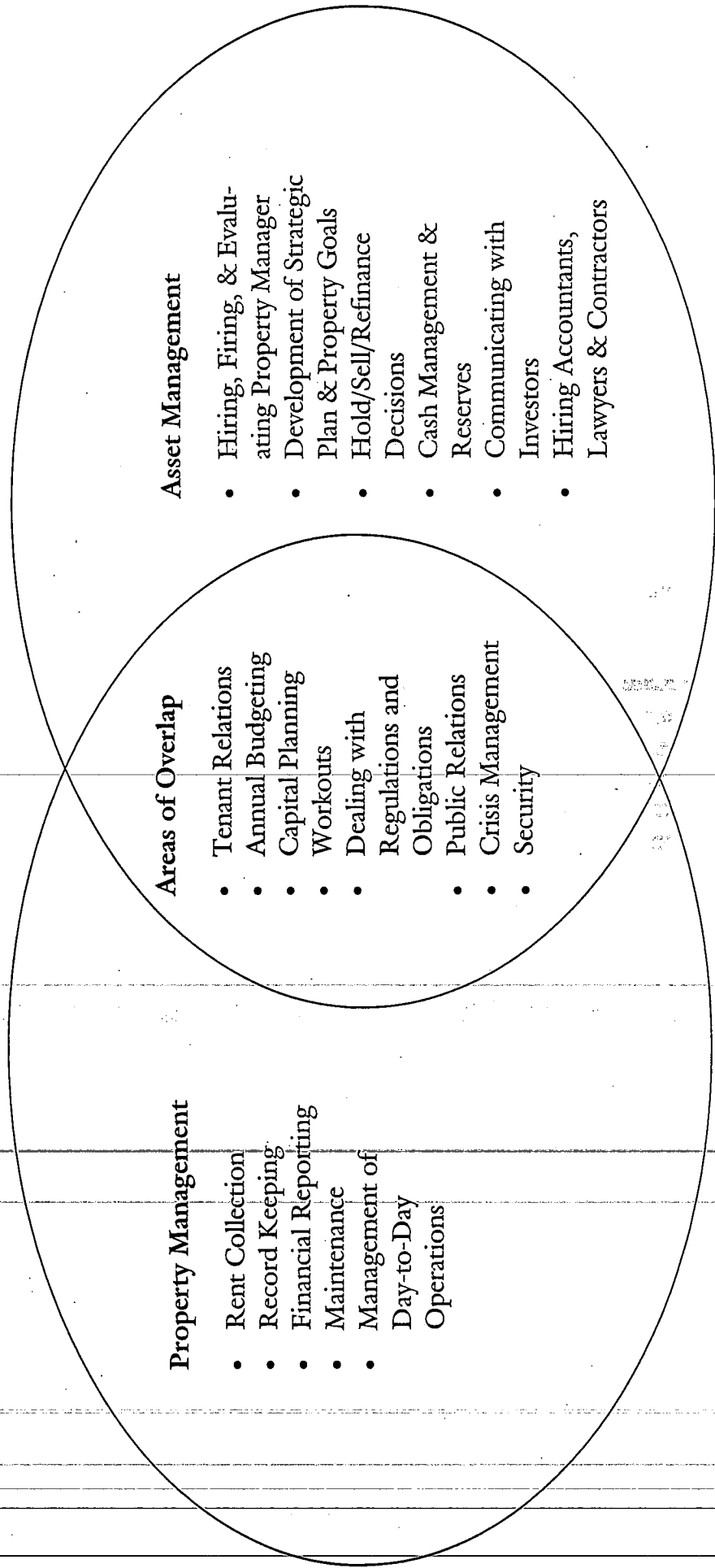
First determine the type of community economic development activities your organization will conduct. If your role will be providing training for community members to start or manage businesses, or organizing various revitalization and community involvement projects, the accounting requirements will be similar to those for other grant funded programs. You will need to set up a separate cost center for each project and track both grant income and all costs associated with the grant funded project. If your project will have multiple grant sources, you will need to determine whether each will require a separate line item accounting, or whether a report of total project activities, on a line item basis, will meet the needs of all the funders.

If your economic development activity will involve your organization actually operating a business venture, you may want to consider whether it should be conducted through a separate legal entity. If so, that entity will need a complete set of books, and its own financial statements. If you will be conducting the business venture as part of your corporation, you will need to set up a separate cost center, or possibly a separate division, with multiple cost centers within the division, to track the revenues and expenses of your business.

#### **XV. Tracking Restricted Funds**

If you have structured your budget to separate costs paid with specific restricted grants, you will need to structure your chart of accounts with cost centers to capture this information. This will permit you to use the cost center report of revenues and expenses as the basis of your reports to the restricted funding source.

## Property Management and Asset Management Roles



### Property Management

- Rent Collection
- Record Keeping
- Financial Reporting
- Maintenance
- Management of Day-to-Day Operations

### Areas of Overlap

- Tenant Relations
- Annual Budgeting
- Capital Planning
- Workouts
- Dealing with Regulations and Obligations
- Public Relations
- Crisis Management
- Security

### Asset Management

- Hiring, Firing, & Evaluating Property Manager
- Development of Strategic Plan & Property Goals
- Hold/Sell/Refinance Decisions
- Cash Management & Reserves
- Communicating with Investors
- Hiring Accountants, Lawyers & Contractors

## Financial Info Requirements of Property Management Firms

### MUST HAVES:

#### Clear Agreements

- Clear agreement on spending authority – in what circumstances will specific owner permission be required – any amount in excess of budget, amounts greater than x% above budget amount.
- Clear agreement on costs covered in “property management” fee.
- Clear agreement on basis for any labor charges in addition to “property management” fee.
- Agreement about the basis of accounting – cash, accrual, modified accrual – which will be used to maintain the records and prepare statements.
- Agreement to correct accounting errors without additional charge.
- Agreement to provide required documentation and assistance to auditors without additional charge.

#### Accounting System and Software

- Complete general ledger.
- Ability to track financial activity on property by property by property basis – complete chart of accounts for each property.
- Supporting schedules for Rents Receivable and Accounts Payable.
- Cash disbursements and cash receipts journals.
- Schedule of journal entries with explanatory descriptions and authorizations.
- Written policies and procedures which meet your requirements for internal controls.
- Sound filing system for invoices allowing easy retrieval and reproduction of invoices at owner’s request.
- Clear procedures of owner communication of financial info to be posted into general ledger (for example – debt deferral or restructure).
- Depreciation schedules.

#### Reports

- Current month and year to date actual revenues and expenses compared to annual budget.
- Month end Balance Sheet.
- Statement of Cash Flows.
- Reporting required by lenders including calculation of debt coverage ratio.
- Vacancy rate data compared to previous months and annual targets.
- Aged Rents Receivable schedule.

**Reconciliations**

- Month-end bank reconciliations.
- Reconciliations to lender statements (as frequently as lender provides statements – at least annually).

**Compliance Documentation**

- All data and reporting needed for compliance with funder/lender agreements.

**NEGOTIATE FOR:**

Both cash and accrual reporting

Comparison of year to date actual revenues and expenses to prior year, year to date revenues and expenses on line item basis

Comparative Balance Sheet – current month end and previous month end

Owner defined Chart of Accounts categories

Narrative explanation of variances between actual and budget and actual and prior year for significant items

Narrative explanation of vacancy rate above target level and rents receivable above targeted level

Actual average per unit maintenance cost compared to budget and prior year

Cost per turnover compared to performance standard or prior year

Days required for turn-over

Graphic presentation of changes in cash, net assets, revenues, expenses

# Checklist for Review of Monthly Financial and Performance Data

Month/Year: \_\_\_\_\_

Project Name: \_\_\_\_\_

Address: \_\_\_\_\_

**Accounting Treatment:**

- Owned by Core Nonprofit
- Included in Yr End Consolidation
- Not Consolidated

**Type of Project:**

- LIH tax credit
- HUD 811
- HUD 202
- LIHPRHA
- Other

<b>Cash Reconciliation:</b>	<b>Completed By:</b>
Account #	<input style="width: 100%;" type="text"/>
Account #	<input style="width: 100%;" type="text"/>
Account #	<input style="width: 100%;" type="text"/>
<b>Rents Receivable Reconciliation:</b>	
30 days	<input style="width: 100%;" type="text"/>
60 days	<input style="width: 100%;" type="text"/>
<b>Other Receivables Reconciliation:</b>	<input style="width: 100%;" type="text"/>
<b>Accounts Payable Reconciliation:</b>	<input style="width: 100%;" type="text"/>
<b>Actual to Budget Reviewed:</b>	<input style="width: 100%;" type="text"/>
<b>Actual to Prior Year Reviewed:</b>	<input style="width: 100%;" type="text"/>

<b>Reserve Requirements Met</b>	
	<b>Verified By:</b>
Reserve name	<input style="width: 100%;" type="text"/>
Reserve name	<input style="width: 100%;" type="text"/>

	Current Month:	Year to Date:	Target:
Vacancy Rate	<input style="width: 100%;" type="text"/>	<input style="width: 100%;" type="text"/>	<input style="width: 100%;" type="text"/>
Average turnover time	<input style="width: 100%;" type="text"/>	<input style="width: 100%;" type="text"/>	<input style="width: 100%;" type="text"/>
Maintenance Cost per unit	<input style="width: 100%;" type="text"/>	<input style="width: 100%;" type="text"/>	<input style="width: 100%;" type="text"/>
Collections Loss %	<input style="width: 100%;" type="text"/>	<input style="width: 100%;" type="text"/>	<input style="width: 100%;" type="text"/>
Year to Date Net Income	<input style="width: 100%;" type="text"/>	<input style="width: 100%;" type="text"/>	<input style="width: 100%;" type="text"/>
Year to Date Net Cash Flow	<input style="width: 100%;" type="text"/>	<input style="width: 100%;" type="text"/>	<input style="width: 100%;" type="text"/>

Notes: \_\_\_\_\_

# Projects Summary

Month/Yr \_\_\_\_\_

- Projects Owned by Parent
- Projects Consolidated with Parent
- Projects Not Consolidated

Project Name		Yr to Date	Actual/Budget %	Prior Yr
Net Income				
Net Cash Flow				
Vacancy Rate				
Rents in Arrears				
<b>Notes:</b>				
Potential Impact on Core				
Repayment of notes receivable:				
Potential liability to investors:				
Cash advance required:				
Compliance issues:				
Strategies to address concerns:				
Other:				

Project Name		Yr to Date	Actual/Budget %	Prior Yr
Net Income				
Net Cash Flow				
Vacancy Rate				
Rents in Arrears				
<b>Notes:</b>				
Potential Impact on Core				
Repayment of notes receivable:				
Potential liability to investors:				
Cash advance required:				
Compliance issues:				
Strategies to address concerns:				
Other:				

Project Name		Yr to Date	Actual/Budget %	Prior Yr
Net Income				
Net Cash Flow				
Vacancy Rate				
Rents in Arrears				
<b>Notes:</b>				
Potential Impact on Core				
Repayment of notes receivable:				
Potential liability to investors:				
Cash advance required:				
Compliance issues:				
Strategies to address concerns:				
Other:				

## NONPROFIT FINANCIAL MANAGEMENT SELF ASSESSMENT TOOL

### I. FINANCIAL PLANNING/BUDGET SYSTEMS

	Don't Know	Inadequately Achieved	Partially Achieved	Fully Achieved
1. Organization has a comprehensive annual budget which includes all sources and uses of funds for all aspects of operations.				
2. All grant or contract budget agreements with funders are incorporated into the comprehensive annual budget.				
3. All grant or contract budget proposals are reviewed by fiscal staff before submission to funders.				
4. Program managers play an active role in the development of budgets for programs under their direction.				
5. A board committee has a detailed understanding of the annual budget and plays a significant role in directing the use of unrestricted funds.				
6. The full board formally authorizes the annual budget and revisions to the budget.				
8. The organization has integrated meaningful consideration of financial issues into any strategic planning processes it undertakes.				
9. The organization has a capital budget and multi-year plans for major maintenance and replacement of facilities and equipment.				

	Don't Know	Inadequately Achieved	Partially Achieved	Fully Achieved
10. The fiscal planning process includes continuous assessment of risks and identification of insurance coverage needs and appropriate risk management procedures.				
11. Risk assessment includes: general liability, professional liability, product liability, fire, theft, casualty, workers compensation/occupational safety, board and officer liability, vehicle operation, fraud and dishonest acts.				

## II. EXECUTION

	Don't Know	Inadequately Achieved	Partially Achieved	Fully Achieved
1. The organization has written policies and procedures for fiscal operations including procedures for processing payroll, purchases, accounts payable, accounts receivable, etc.				
2. Written policies and procedures are reviewed and revised regularly.				
3. Actual processing activities are consistent with written policies and procedures.				
4. The concept of separation of duties is implemented to the greatest extent feasible within the limitations of the size of the organization staff.				
a. Authorization functions for purchasing, signing checks, adjusting accounts, and extending credit are not performed by individuals who also perform recording functions such as disbursements and/or receipts, maintaining accounts receivable records, or cash handling functions such as receiving and depositing funds or preparing checks.				

	Don't Know	Inadequately Achieved	Partially Achieved	Fully Achieved
b. Review and verification functions such as reconciliation of the bank statement to the record of cash receipts and disbursements are not performed by individuals who also prepare checks, record checks, receive funds and prepare bank deposits, and/or record receipts.				
5. Payroll policies and procedures are clearly documented and consistently followed.				
a. Written authorization is required for all new hires and pay rate changes.				
b. Written timesheets are prepared by all employees, signed by the employee, and approved in writing by the employee's direct supervisor.				
c. Forms W-4 and I-9 are obtained and retained for each employee.				
d. Policies regarding overtime, vacation time, sick leave, holiday pay, and other leaves with or without pay are written clearly, and reviewed regularly for compliance with state and federal law.				
e. All fringe benefit plans are documented and in compliance with IRS and Department of Labor requirements. The proper tax treatment for all benefits and compensation arrangements has been determined and documented.				
f. Responsibility for maintaining fringe benefit records in accord with governmental requirements has been clearly assigned and records are reviewed regularly.				

	Don't Know	Inadequately Achieved	Partially Achieved	Fully Achieved
6. Written purchasing policies clearly identify the purchasing authority of each staff position, and establish appropriate dollar limits for purchasing authority at each level.				
7. There are clear procedures for review of and authorization to pay all vendor invoices.				
8. Written policies and procedures for charging and collecting fees are followed consistently and reviewed regularly.				
9. Cash handling policies and procedures are well-documented and are tested periodically.				
a. All checks are restrictively endorsed upon receipt.				
b. Receipts are given for all cash transactions and donors/clients are informed that they should receive a receipt for all cash payments. Pre-numbered, multi-copy, customized receipts are used.				
c. A receipts log is maintained by the person responsible for opening the mail.				
d. Cash reconciliation sheets are maintained by all individuals responsible for accepting cash. All cash counts are initialled by the individual preparing the initial count and the individual receiving the cash for further processing.				
e. Post dated checks are not generally accepted, and if accepted, are secured carefully.				
f. All disbursements are made by check except for small purchases made through a Petty Cash fund.				

	Don't Know	Inadequately Achieved	Partially Achieved	Fully Achieved
g. All unused check stock is carefully secured.				
h. Bank reconciliation is performed by someone who neither makes bank deposits nor prepares checks.				

### III. RECORDING

	Don't Know	Inadequately Achieved	Partially Achieved	Fully Achieved
1. A complete written chart of accounts provides appropriate account titles and numbers for Assets, Liabilities, Net Assets, Revenues, and Expenses.				
2. The Chart of Accounts clearly establishes the programs or functions which will be distinguished and the funding sources and/or distinct funds which will be tracked.				
3. The Chart of Accounts utilizes the same line item categories and the same program or function distinctions which are utilized in the comprehensive annual budget and the budgets for individual contracts or grants.				
4. Accounting policies and recording procedures are clearly documented in the written fiscal policies and procedures.				
5. Appropriate computer software and hardware is utilized to perform recording functions.				
6. Appropriate electronic and physical security procedures are utilized to protect the integrity of computerized accounting records.				
7. All accounting records are backed up daily. Back-up media are stored in a secure area away from computer equipment.				

	Don't Know	Inadequately Achieved	Partially Achieved	Fully Achieved
8. Back-ups of accounting data are stored off-site at least monthly.				
9. Detailed records of client fees and/or grants and contracts receivable are maintained and reconciled to the general ledger receivables balances.				
10. All contributions are recorded in the accounting records. If more detailed records are maintained by staff responsible for fund development, the fund development and accounting records of contributions are reconciled monthly.				
11. All general ledger balance sheet accounts are reconciled at least quarterly. All cash, payroll liabilities, and accounts receivable control accounts are reconciled monthly.				

#### IV. REPORTING

	Don't Know	Inadequately Achieved	Partially Achieved	Fully Achieved
1. Monthly financial statements are available no later than the end of the following month (i.e. April 30th statements are available no later than May 31st).				
2. Monthly financial statements include a Balance Sheet as well as a Statement of Activities and Changes in Net Assets.				
3. In organizations with multiple programs, statements of the expenses of each distinct program are prepared monthly.				
4. In organizations which receive restricted funds, separate statements of revenue and expenses are prepared for each funding source.				

	Don't Know	Inadequately Achieved	Partially Achieved	Fully Achieved
5. All revenue and expense statements (for the whole organization, for specific programs, and for specific funding sources) include the current month's activity, the fiscal year to date activity, and a comparison to the year to date or annual budget by line item.				
6. The excess (deficit) of support and revenue over expenses (net income) is reconciled to the change in fund balance between the beginning and ending of the accounting period.				

**V. MONITORING**

	Don't Know	Inadequately Achieved	Partially Achieved	Fully Achieved
1. The executive director and the program managers review the monthly financial statements carefully.				
2. The fiscal manager highlights unusual items and identifies potential problems in notes to the financial statements shared with the executive director and board committee or full board.				
3. A board committee or the full board reviews the monthly financial statements carefully.				
4. The board or a board committee selects an independent CPA to conduct an annual audit or review. The board determines whether the organization should have an audit or a review, and whether or not the audit must be conducted within the guidelines of OMB A-133, as required for organizations receiving over \$300,000 in federal funds or recommended for organizations receiving more than \$100,000 each from more than one federal source.				

	Don't Know	Inadequately Achieved	Partially Achieved	Fully Achieved
5. The board or a board committee reviews the auditor's report, including any management letters, and reports on internal controls and compliance with governmental law and regulation.				
7. The board and executive director continually review the organization's financial statements to determine whether:				
a. The use of the organization's resources is consistent with the organization's mission and priorities.				
b. The organization is solvent, i.e. has assets in excess of its liabilities.				
c. The organization has adequate cash and other liquid assets to meet its current obligations and assure its continuing ability to pay its employees, taxing authorities, and vendors on time.				
d. The organization is observing and documenting its observance of all restrictions imposed by funders and donors.				
8. The board and executive director are aware of the IRS requirements for maintaining tax exempt status and continually evaluate the organization's activities, use of funds, record keeping, and reporting to the IRS to assure compliance with all requirements.				

# Sample Functional Budget

EXPENSES	TOTAL ADMIN	F.R. PROG A.	PROG B.	PROG C.				
				GENERAL	GRANT 1			
Salaries	275100	57525	11925	62700	54600	30450	57900	
Payroll Taxes (13%)	35763	7478	1550	8151	7098	3959	7527	
Fringe Benefits (15%)	41265	8629	1789	9405	8190	4568	8685	
<b>Subtotal: Personnel</b>	<b>352128</b>	<b>73632</b>	<b>15264</b>	<b>80256</b>	<b>69888</b>	<b>38976</b>	<b>74112</b>	
Professional Services	16000	4000	8000	1000	500	500	2000	
Occupancy	40000	8364	1734	9117	7939	4427	8419	
Supplies	15000	1000	5000	4000	2000	1000	2000	
Transportation	4000	500	600	0	1200	800	900	
Other Expenses	20000	2000	4000	2000	3000	4000	5000	
<b>TOTAL EXPENSES</b>	<b>447128</b>	<b>89496</b>	<b>34598</b>	<b>96373</b>	<b>84527</b>	<b>49703</b>	<b>92431</b>	
Allocation of Admin	0	-89496	8658	24117	21153	12438	23129	
<b>EXPS W/ ALLOCATED ADMIN</b>	<b>447128</b>	<b>0</b>	<b>43256</b>	<b>120490</b>	<b>105680</b>	<b>62142</b>	<b>115560</b>	
<b>SUPPORT AND REVENUE</b>								
	<b>TOTAL</b>	<b>UNDESIGNATE</b>		<b>D</b>	<b>PROG A</b>	<b>PROG B</b>	<b>PROG C</b>	
							<b>GENERA</b>	<b>PROG C</b>
							<b>L</b>	<b>GRANT 1</b>
Government Grants/Contracts	160560	0	20000	25000	0	115560		
Foundations	40000	0	5000	20000	15000	0		
Individual Donations	85000	77000	5000	1000	2000	0		
Special Events	50000	50000	0	0	0	0		
Program Service Fees	115000	0	70000	40000	5000	0		
Investment Income	4000	4000	0	0	0	0		
<b>SUBTOTAL: SUPPORT &amp; REVENUE</b>	<b>454560</b>	<b>131000</b>	<b>100000</b>	<b>86000</b>	<b>22000</b>	<b>115560</b>		
<b>REVENUE - EXPENSES</b>	<b>7432</b>	<b>87744</b>	<b>-20490</b>	<b>-19680</b>	<b>-40142</b>	<b>0</b>		
Allocated Undesignated Amounts	0	-80312	20490	19680	40142	0		
<b>NET INCOME</b>	<b>7432</b>	<b>7432</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>		

	HDC OPERATING		PROJECTS UNDER DEVELOPMENT		OPERATING RD PROJECTS			TOTAL	
	ADMIN	FUND-RAISING	MARIA LUISA II	REEDVILLE (1 MO)	MONTE BELLO	ELM PARK I	ELM PARK II		CORNELIUS PARK
REVENUE									
RESTRICTED RENTS									
RESTRICTED LAUNDRY									
RESTRICTED VACANCY LOSS									
FOUNDATION GRANTS									
STATE GRANTS									
COUNTY GRANTS									
INTEREST									
DEVELOPERS FEES									
INCOME FROM LIMITED PTRNSHP									
TOTAL									
EXPENSES									
STAFF SALARIES									
PR TAXES									
EMPLOYEE BENEFITS									
APT MANAGERS									
FISCAL & AUDIT									
OTHER PROF SERVICES									
OFFICE RENT									
TELEPHONE									
INTERNET									
UTILITIES									
OFFICE SUPPLIES									
PRINTING/COPIES									
POSTAGE									
ADVERTISING									
INSURANCE									
INTEREST EXPENSE									
STAFF EDUCATION									
AUTO ALLOWANCE (MILEAGE?)									
SEMINAR TRAVEL/STAFF									
SEMINAR TRAVEL/BOARD									
TENANT SERVICES									
FEES									
REPAIR & MAINTENANCE									
EQUIPMENT PURCHASES									
TOTAL									
REVENUE OVER (UNDER) EXPENSE									
CASH FLOW ADJUSTMENTS:									
INVESTMENTS IN PROPERTIES									
LOAN PROCEEDS-PROJECTS									
LOAN PROCEEDS-DEV FEES									
MORTGAGE PRINCIPAL PAYMENTS									
NET AFTER CASH FLOW ADJUSTMENTS									

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HDC SUMMARIZED BUDGET

PROJECTS UNDER DEVELOPMENT      RD PROJECTS TOTAL

REVENUE			
RESTRICTED RENTS			
RESTRICTED LAUNDRY			
RESTRICTED VACANCY LOSS			
FOUNDATION GRANTS			
STATE GRANTS			
COUNTY GRANTS			
INTEREST			
DEVELOPERS FEES			
INCOME FROM LIMITED PTRNSHIP			
TOTAL			

EXPENSES			
STAFF SALARIES			
PR TAXES			
EMPLOYEE BENEFITS			
APT MANAGERS			
FISCAL & AUDIT			
OTHER PROF SERVICES			
OFFICE RENT			
TELEPHONE			
INTERNET			
UTILITIES			
OFFICE SUPPLIES			
PRINTING/COPIES			
POSTAGE			
ADVERTISING			
INSURANCE			
INTEREST EXPENSE			
STAFF EDUCATION			
AUTO ALLOWANCE (MILEAGE?)			
SEMINAR TRAVEL/STAFF			
SEMINAR TRAVEL/BOARD			
TENANT SERVICES			
FEES			
REPAIR & MAINTENANCE			
EQUIPMENT PURCHASES			
TOTAL			

REVENUE OVER (UNDER) EXPENSE			
TOTAL			

CASH FLOW ADJUSTMENTS:			
INVESTMENTS IN PROPERTIES			
LOAN PROCEEDS:PROJECTS			
LOAN PROCEEDS:DEV FEES			
MORTGAGF PRINCIPAL PAYMENTS			
NET AFTER CA...			62

**Sample A**  
**Statement of Financial Position**  
**at September 30, 2005 and June 30, 2005**

	9/30/2005	6/30/2005
<b>Assets</b>		
Cash	240,200	225,000
Investments	101,000	100,000
Accounts receivable	75,000	50,000
Grants receivable	145,000	60,000
Prepaid expenses	1,000	200
Land, buildings, equipment	250,000	250,000
less accumulated depreciation	-51,000	-50,000
Net fixed assets	199,000	200,000
<b>Total Assets</b>	<b>660,200</b>	<b>535,200</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Wages payable	80,000	78,000
Employer tax payable	35,000	25,000
Accounts payable	10,000	2,000
Deferred revenue	10,000	0
Mortgage payable	150,000	150,000
<b>Total Liabilities</b>	<b>285,000</b>	<b>255,000</b>
<b>Net Assets</b>		
Unrestricted net assets		
Available for operations	97,200	80,200
Invested in fixed assets	49,000	50,000
Board designated reserves	50,000	50,000
Total unrestricted net assets	196,200	180,200
Temporarily restricted net assets		
Purpose restrictions	20,000	0
Time restrictions	9,000	0
Total temporarily restricted net assets	29,000	0
Permanently restricted net assets	150,000	100,000
<b>Total Net Assets</b>	<b>375,200</b>	<b>280,200</b>
<b>Total Liabilities and Net Assets</b>	<b>660,200</b>	<b>535,200</b>

**Sample A**  
**Statement of Activities**  
**for the period**  
**July 1, 2005 - September 30, 2005**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>PUBLIC SUPPORT AND REVENUE:</b>				
Public Support:				
Government grants	\$ -	\$ 400,000	\$ -	\$ 400,000
Foundation and corporate grants	80,000	200,000	-	280,000
Donations	40,000	30,000	50,000	120,000
United Way	-	20,000	-	20,000
	<u>120,000</u>	<u>650,000</u>	<u>50,000</u>	<u>820,000</u>
Revenue:				
Service fees	150,000	-	-	150,000
Investment income	1,000	4,000	-	5,000
	<u>151,000</u>	<u>4,000</u>	<u>-</u>	<u>155,000</u>
Net Assets Released From Restrictions:				
Satisfaction of program restrictions	580,000	(580,000)	-	-
Satisfaction of time restrictions	45,000	(45,000)	-	-
	<u>625,000</u>	<u>(625,000)</u>	<u>-</u>	<u>-</u>
 Total Public Support and Revenue	 896,000	 29,000	 50,000	 975,000
<b>EXPENSES:</b>				
Program services	700,000	-	-	700,000
Administrative	130,000	-	-	130,000
Fund raising	50,000	-	-	50,000
	<u>880,000</u>	<u>-</u>	<u>-</u>	<u>880,000</u>
 Total Expenses	 880,000	 -	 -	 880,000
 <b>INCREASE IN NET ASSETS</b>	 16,000	 29,000	 50,000	 95,000
 <b>NET ASSETS AT BEGINNING OF YEAR</b>	 180,200	 -	 100,000	 280,200
 <b>NET ASSETS AT END OF YEAR</b>	 <u>\$ 196,200</u>	 <u>\$ 29,000</u>	 <u>\$ 150,000</u>	 <u>\$ 375,200</u>

Sample A

Unrestricted Revenues and Expenses  
with Budget Comparison  
for the period  
July 1, 2005 - September 30, 2005

	Unrestricted	Annual Budget	% of budget realized	variance
<b>PUBLIC SUPPORT AND REVENUE:</b>				
Public Support:				
Government grants	\$ -	\$ 500,000	-	\$ (500,000)
Foundation and corporate grants	80,000	400,000	0.20	(320,000)
Donations	40,000	500,000	0.08	(460,000)
United Way	-	10,000	-	(10,000)
	<u>120,000</u>	<u>1,410,000</u>	<u>0.09</u>	<u>(1,290,000)</u>
Revenue:				
Service fees	150,000	1,100,000	0.14	(950,000)
Investment income	1,000	10,000	0.10	(9,000)
	<u>151,000</u>	<u>1,110,000</u>	<u>0.14</u>	<u>(959,000)</u>
Net Assets Released From Restrictions:				
Satisfaction of program restrictions	580,000	600,000	0.97	(20,000)
Satisfaction of time restrictions	45,000	50,000	0.90	(5,000)
	<u>625,000</u>	<u>650,000</u>	<u>0.96</u>	<u>(25,000)</u>
Total Public Support and Revenue	896,000	3,170,000	0.28	(2,274,000)
<b>EXPENSES:</b>				
Program services	700,000	2,500,000	0.28	(1,800,000)
Administrative	130,000	400,000	0.33	(270,000)
Fund raising	50,000	225,000	0.22	(175,000)
Total Expenses	<u>880,000</u>	<u>3,125,000</u>	<u>0.28</u>	<u>(2,245,000)</u>
<b>INCREASE IN NET ASSETS</b>	16,000	45,000	0.36	(29,000)
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<u>180,200</u>	<u>180,200</u>		
<b>NET ASSETS AT END OF YEAR</b>	<u>\$ 196,200</u>	<u>\$ 225,200</u>	<u>0.87</u>	<u>\$ (29,000)</u>

Note: Report displays Unrestricted income and expenses as well as amounts released from temporary restrictions compared to the budget for unrestricted income and expenses and the planned release of temporarily restricted net assets

**ROSE Community Development Corporation**  
**STATEMENT OF FINANCIAL POSITION**

6/30/2002

UNAUDITED

**Assets**

	FY 02 - YTD	FY 01-YTD
<b>Current Assets</b>		
Cash in Banks	34,517	96,944
Cash Held by Property Managers	35,468	15,912
Grants and Contracts Receivable	127,410	122,396
Other Receivables	87,149	68,062
Rental Deposits Held	31,146	22,403
Replacement Reserves and Escrow Accounts	115,716	92,588
Prepaid Expenses and Deposits	4,375	1,946
<b>Total Current Assets</b>	<b>435,780</b>	<b>420,250</b>
<b>Other Assets</b>		
Notes & Loans Receivable	25,907	104,362
Equity in Joint Ventures	366,410	154,997
Office Building, Furniture and Equipment (Net)	231,955	241,190
<b>Total Other Assets</b>	<b>624,272</b>	<b>500,550</b>
<b>Operating Assets</b>		
Predevelopment	104,116	420,128
Construction in Progress	212,234	-
Rental Housing (Net)	4,668,473	4,406,121
Homes for Sale	-	126,464
<b>Total Operating Assets</b>	<b>4,984,823</b>	<b>4,952,713</b>
<b>Total Assets</b>	<b>6,044,875</b>	<b>5,873,513</b>
 <b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts Payable	49,556	59,752
Accrued Interest Payable	18,977	48,209
Deferred Revenue	81	-
Payroll Liabilities and Vacation Accruals	13,861	11,880
Rental Deposits Held	31,141	22,395
<b>Total Current Liabilities</b>	<b>113,616</b>	<b>142,236</b>
<b>Long Term Liabilities</b>		
Portland Development Commission	1,662,274	1,277,212
Equity Gap Loans	1,208,361	923,739
US Bank Loan-Office Building	147,247	147,247
KeyBank Loan-Beyer Ct	367,558	373,651
Enterprise Loans	38,928	452,070
NOAH Loans	398,113	398,113
Washington Mutual Loan-Country Squire	1,133,376	1,141,998
Shore Bank Pacific-Johnson Creek	235,192	-
Other Loans	117,598	98,011
<b>Total Long Term Liabilities</b>	<b>5,308,647</b>	<b>4,812,041</b>
<b>Total Liabilities</b>	<b>5,422,263</b>	<b>4,954,277</b>
<b>Net Assets</b>		
Unrestricted - Available for General Operations	139,106	59,668
Unrestricted - Designated for Specific Purposes	512,408	353,894
Unrestricted - Investment in Property and Equipment	(91,869)	381,862
Temporarily Restricted - Net Assets	# 62,967	123,812
<b>Total Net Assets</b>	<b>622,613</b>	<b>919,236</b>
<b>Total Liabilities and Net Assets</b>	<b>6,044,875</b>	<b>5,873,513</b>

**ROSE Community Development Corporation**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
 For the Period Ending 6/30/2002

UNAUDITED

EXPENSES	PROGRAM SERVICES				SUPPORT SERVICES		YTD TOTAL	FY 01 YTD	
	Child Care Network	Community Organizing	Community Econ. Dev	Housing Development	Rental Housing	Management & General			Fundraising
Salaries and related	86,595	66,150	15,130	74,077	51,443	18,990	19,645	332,029	320,143
Professional Services	35,120	6,046	775	5,250	6,235	12,366	16,096	81,888	33,996
Occupancy	6,442	4,547	1,579	7,011	3,109	2,442	1,866	26,995	26,156
Postage & Printing	2,211	1,411	394	1,775	799	2,903	1,694	11,186	9,688
Telephone	1,033	731	257	1,117	516	344	300	4,299	4,586
Insurance	1,426	1,333	166	711	327	218	196	4,377	3,714
Supplies	1,401	888	314	1,544	663	491	420	5,720	14,365
Professional Dues & Newsletter	1,370	2,287	260	1,333	434	499	302	6,484	7,406
Training	2,939	1,090	488	2,551	526	341	88	8,024	6,354
Depreciation Expense	1,207	853	302	1,307	141,385	412	355	145,821	108,050
Property Management	-	-	-	-	73,227	-	-	73,227	70,627
Maintenance and Repair	-	-	-	-	60,400	-	-	60,400	84,715
Property Insurance	-	-	-	-	18,898	-	-	18,898	14,013
Utilities	-	-	-	-	59,693	-	-	59,693	50,687
Taxes	-	-	-	-	-	-	-	-	-
Interest	-	-	-	-	214,772	2,114	-	216,886	217,332
Child Care Subsidies	20,807	-	-	-	-	-	-	20,807	20,751
Other Expenses	7,068	4,220	192	25,412	1,615	3,912	8,657	51,076	123,737
<b>TOTAL</b>	<b>167,619</b>	<b>89,556</b>	<b>19,858</b>	<b>122,087</b>	<b>634,040</b>	<b>45,033</b>	<b>49,618</b>	<b>1,127,811</b>	<b>1,116,320</b>

**ROSE Community Development Corporation**  
**FISCAL YEAR 2002 BUDGET TO ACTUAL REPORT**

For the Period Ending 5/31/2002

UNAUDITED

	<u>Current Month</u>	<u>Actual Year to Date</u>	<u>FY 02 Budget</u>	<u>Actual to Budget (%)</u> Expected = 92%
<b>Support and Revenues</b>				
<b>Support</b>				
PNDSC Grant	8,423	120,000	120,000	100%
BHCD Grants	6,863	99,540	153,528	65%
Meyer Grant	-	100,000	100,000	100%
Multnomah TT	-	21,060	21,061	100%
In-Kind Contributions	-	32,828	35,000	94%
Other Grants	5,250	75,654	60,000	126%
Contributions	2,100	43,465	35,000	124%
<b>Total Support</b>	<b>22,636</b>	<b>492,547</b>	<b>524,589</b>	<b>94%</b>
<b>Revenues</b>				
Rental Income	40,031	418,390	448,637	93%
Gains/Losses on sale of houses	-	(92,977)	(148,000)	0%
Equity Earnings in Joint Ventures	-	17,894	(3,782)	0%
Interest Income	102	1,914	2,000	96%
Development Fees	-	-	25,000	0%
Contract Revenues	150	8,562	15,000	57%
Other Income	2,243	19,724	20,000	99%
<b>Total Revenues</b>	<b>42,527</b>	<b>373,507</b>	<b>358,855</b>	<b>104%</b>
<b>Total Support and Revenues</b>	<b>65,163</b>	<b>866,054</b>	<b>883,444</b>	<b>98%</b>
<b>Expenses</b>				
Salaries	23,516	257,627	273,843	94%
Payroll taxes	2,363	23,797	23,047	103%
Employee benefits	1,717	22,100	30,872	72%
Workers comp insurance	125	1,159	1,200	97%
Professional services	5,725	76,551	70,000	109%
Occupancy	2,445	24,947	30,000	83%
Printing	113	6,244	5,000	125%
Postage	113	3,861	4,200	92%
Telephone	482	3,940	5,000	79%
Insurance	283	4,094	5,750	71%
Supplies	19	3,078	3,000	103%
Non Capital Equipment & Repair	274	1,849	3,000	62%
Professional dues & newsletter	1,014	6,459	9,000	72%
Training	410	7,940	9,000	88%
Depreciation expense	12,953	132,933	149,215	89%
Property management	5,191	68,240	69,478	98%
Maintenance and repair	5,781	57,850	51,362	113%
Property insurance	1,663	17,234	18,520	93%
Utilities	6,948	56,259	63,482	89%
Taxes	-	-	-	0%
Debt service	18,630	199,456	208,354	96%
Childcare subsidies	728	15,954	28,000	57%
Other expenses	6,621	47,697	15,000	318%
<b>Total Expenses</b>	<b>97,113</b>	<b>1,039,269</b>	<b>1,076,323</b>	<b>97%</b>

**Adjustments****Other Sources:**

Carry over funds	(761)	26,876	35,000	77%
Loans and Development fees	34,048	622,844	550,730	113%
Change in Depreciation Office Bldg.	350	3,845	4,200	92%
Change in Depreciation Equipment	425	4,680	5,102	92%
Change in Depreciation Property	12,528	128,253	139,913	92%
Use of Revolving Fund	-	-	-	0%
Planned use (increase) of Net Assets	-	-	-	0%
<b>Total other sources</b>	<b>46,590</b>	<b>786,498</b>	<b>734,945</b>	<b>107%</b>

**Other Uses:**

Property Acquisition & Rehab	(22,167)	(454,280)	(340,000)	0%
Net Change to replacement reserve	(1,273)	(18,747)	(17,147)	0%
Net Change to Construction hold	-	-	-	0%
Building, capital equip. purchases	-	-	-	0%
<b>Total other uses</b>	<b>(23,440)</b>	<b>(473,027)</b>	<b>(357,147)</b>	<b>0%</b>

**Net Adjustments**

	23,150	313,472	377,798	
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**Total Budget Surplus (Deficit)**

	(8,800)	140,256	184,919	76%
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**ROSE Community Development Corporation**  
**STATEMENT OF ACTIVITIES**  
for the period ending xxx

UNAUDITED

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	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>TOTAL</u>	<u>FY 01 - YTD</u>
<b>Support and Revenues</b>				
<b>Support</b>				
4100-%-045- Multnomah Co. Grant	\	\	\	\
4100-%-055- Surdna Foundation	\	\	\	\
4100-%-038- PNDSC Grant	\	\	\	\
4100-%-039- BHCD Grants	\	\	\	\
4100-%-023- Meyer Grant	\	\	\	\
4700%% In-Kind Contributions	\	\	\	\
4100-%-000- Other Grants	\	\	\	\
4300%% Contributions	\	\	\	\
<u>Total Support</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Revenues</b>				
4500%% Rental Income	\	\	\	\
4600%% Program Income	\	\	\	\
4800%% Interest Income	\	\	\	\
4650%% Contract Revenues	\	\	\	\
4400%% Gains/ (Losses) on sales of houses	\	\	\	\
4450%% Equity in Earnings of Joint Venture	\	\	\	\
4900%% Other Income	\	\	\	\
<u>Total Revenues</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Assets Released from Restrictions</b>				
4150%% Satisfaction of Program Restrictions	\	\	\	\
<b><u>Total Support and Revenues</u></b>				
<b>Expenses</b>				
<b>Program Services</b>				
5000~9300 Child Care	\	\	\	\
5000~9300 Community Organizing	\	\	\	\
5000~9300 Community Economic Development	\	\	\	\
5000~9300 Housing Development	\	\	\	\
5000~9300 Rental Housing	\	\	\	\
<u>Total Program Services</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Support Services</b>				
5000~9300 Management & General	\	\	\	\
5000~9300 Fundraising	\	\	\	\
<u>Total Support Services</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b><u>Total Expenses</u></b>				
<b><u>Change in Net Assets</u></b>				
3200%% Net Assets at Beginning of Year	\	\	\	\
Net Assets at End of Period	\	\	\	\