

Module 6: Understanding the Council's Financial Statements

Video time allowed

4:03 minutes

Facilitator

Council president or other key council officer with assistance from the Scout executive

Learning objectives

- This module is the first in a series that focuses specifically on the council's fiduciary responsibilities.
- The underlying message is that the board has the responsibility for ensuring that the council maintains a solid financial base.
- To do this, everyone on the board has to understand the financing of a council.
- To that end, this module teaches participants how to read and understand the council's financial statements.

After completing this module, board members should

- Know the three funds used to track the council's financial activities—the operating fund, the capital fund, and the endowment fund—and what each includes.
- Understand the statement of financial position, how to read it, and what it shows.
- Know how to identify red flags on the statement of financial position.
- Understand the statement of operations, how to read it, and what it shows.
- Know how to identify red flags on the statement of operations.

Materials needed

- Laptop, projector, and screen
- Council executive board handouts or binders—one for each participant—that can be printed in advance locally from the [online appendix](#)
- Whiteboard, flip chart, or overhead projector to facilitate discussion and presentation
- Fiduciary Responsibility of the Executive Board, No. 531-308 (from the [online appendix](#))
Local Council Statement of Financial Position
Local Council Statement of Operation"

Introduction of Module 6

- This module begins the board fiduciary responsibility series.
- So, ideally, your council president should open this session. He or she should give a brief introduction on the importance of maintaining a financially sustainable council to serve the youth in the community.
- Tell participants that this module and the remainder of the training will give them the specific tools they need to make sure the council thrives.
- Suggest a positive statement about the quality of the board members and how proud he or she is to be working with them.

(The president then turns the session over to the Scout executive, who will introduce the module and then facilitate the rest of this session.)

- Let your participants know that, as a nonprofit, the council produces financial statements that look different than what they typically see at their own place of business.
- Explain that this module will detail the two main financial statements for the council, and offer some examples of “red flags” to look for in these statements.
- Let them know you’ll have more examples to discuss after they watch the tape.

Show Module 6.

Any questions?

- Ask if there are any questions and address them.

(Estimated discussion time will vary, depending on the board level of experience and participation.)

Statement of financial position

- So, we’re clear: The statement of financial position shows . . . what?
- Wait for the response—what the council owns and owes.
- (Reference the local council statements.)
- Discuss the difference between what a council owns and what a council owes.
- Can you calculate the liquidity ratio on your council’s financial statement?
- The ideal target is 1.33.
- (Reference the handout from the appendix.)

OK, let's put what we just saw into practice. Here's a scenario to read to the group:

You've just reviewed this month's council financial statement. Which of the following would raise a red flag?

- A. Liquidity ratio cash flow below 1.33
- B. Monthly accounts payable exceeding income—but this was the month of your annual camp season
- C. An increase in notes payable from the last statement
- D. Unrestricted net assets are not increasing

Ask participants which example raises red flags and why. (It's actually all of the above—a trick question. If someone says all of the above, ask why and then go on to the explanation.)

It's really "all of the above."

- Tell them that this was a bit of a trick question.
- Congratulate participants who gave the correct answer.

Summary: Understanding the Council's Financial Statements

- A. Liquidity ratio cash flow below 1.33**
- B. Monthly accounts payable exceeding income—but this was the month of your annual camp season**
- C. An increase in notes payable from the last statement**
- D. Unrestricted net assets are not increasing**
 - Explain that a liquidity ratio below the 1.33 target is always a red flag. Steady cash flow is needed to pay monthly bills so the council can operate effectively. Tell them there's a monthly cash flow planning chart produced by the BSA to help determine what cash flow they need and when.
 - Reinforce the concept that no matter what, monthly account payables should not exceed available income. Paying bills on time is not only good stewardship but also gives the council the credibility it needs to borrow money.
 - Advise your board that short-term borrowing is only acceptable if it's paid off in a timely manner—which is less than nine months. Long-term borrowing has to be monitored and reduced over time. No borrowing is the best.
 - Finally, when a council remains in operating debt on a monthly basis, then annually, and then over a few years without positive unrestricted net assets, then it won't be able to function in the future. Which means it won't be able to grow or add programs to serve the youth. Better to keep income levels increasing and expenses lowered.
 - Don't forget to raise a red flag when you see any of the above.

Statement of Operations

(Reference the local council statement of operations.)

- Now, the statement of operations compares your monthly and yearly plan to the actual results of the month and year.
- What you're looking for here is the same thing you'd be looking for at your own business—that your financial plan of action is on track with your actuals.
- Advise that a council's situation must be where revenue exceeds expenses.
- As we continue with this training, we'll be spending more time on actual scenarios and go in depth on such topics as strategic planning and budgeting.
- (Show anything relevant.)
- Use this moment to emphasize the responsibility of the volunteer board to monitor financial statements, ask questions, and look for definitive answers.