

The report shows the net assets as of the beginning of the year and any changes to net assets, as well as transfers, that have occurred during the period being measured and the resulting ending net assets.

Ending net assets on this report are the same net assets reported on the Statement of Financial Position.

The increase or decrease of net assets for all funds is the beginning point for the Statement of Cash Flows.

This report can be printed in natural expense order or functional expense order.

ANALYSIS

To understand this report, the reader needs to identify four separate sections of the report.

Unrestricted Transactions

All income, expense, and reclassification of net assets that are unrestricted are shown on this part of the statement.

Temporarily Restricted Transactions

These are income that is temporarily restricted.

Permanently Restricted Transactions

These are income and reclassification of net assets that are permanently restricted.

Net Assets

These are at the bottom of the report. This section shows the balance that existed at the beginning of the year and the balance at the end of the year. The previous three sections are an explanation of why these changes have occurred.

4. Statement of Cash Flows

OVERVIEW

The Statement of Cash Flows is designed to show the reader the effect of all transactions on cash.

The beginning point for this statement is the net increase (decrease) in net assets as shown on the Statement of Change in Net Assets.

The statement is divided into three sections: effects on cash from operations, effects on cash from investment decisions, and effects on cash from borrowing decisions. The report shows each effect as it relates to the Operating, Capital, and Endowment funds and total of all funds.

At the bottom of the report are the beginning balances for the cash accounts and the current balance of the cash accounts.

The sections leading up to these two balances are an explanation of how these changes in cash flow have occurred.

Net Cash Flows From Operations

Look at this line on your statement. This is the amount of cash that has been consumed or created as a result of normal council operations. At any point in the fiscal year, this will tell you why cash flow has been affected by operations.

Net Cash Flows From Investments

This is the amount of cash consumed or generated by placing cash in investments or from removing cash investments, respectively, since the first of January.

Net Cash Flows From Borrowing

This line tells you the net amount of cash consumed or generated by repaying loans or borrowing money, respectively.

Cash at the Beginning of the Year

This is the amount of cash shown on the Statement of Financial Position as of January 1 of the years shown.

Cash at the End of the Period

This is the amount available now and should match the figure on the Statement of Financial Position for the current month being measured.

Liquidity Ratio—Unrestricted Operating Fund Liquidity Ratio (30-Day Demand)

The purpose of the liquidity ratio is to easily measure the available cash on hand to meet current demand. A score of 1.0 equals enough cash on hand to meet the current 30-day obligations. The recommended score is 1.33, which indicates the council has enough cash on hand to meet 45 days' obligations. While its distribution at board meetings is an option, it is recommended the liquidity ratio be included as an attachment to the Statement of Financial Position.

National Formula

This line represents the nationally suggested ratio of cash assets to 30-day or less demand liabilities.

National Standard in Dollars

This line figures the cash requirements using the suggested ratio based on the council's actual 30-day demand liabilities.

Council in Dollars

This line displays the council's actual cash assets and the actual 30-day demand liabilities.

Council Cash Ratio

This line converts the actual dollars for the council's cash assets and 30-day demand liabilities to a ratio.



Fiduciary Responsibilities of the Council Executive Board



Good Governance is necessary to ensure the council's resources are being properly managed and used as various regulatory agencies require.

Strong Fiscal Capacity ensures that the council has sufficient well-trained staff and volunteers, good internal and external communications, as well as adequate and efficient use of resources for proper administration of the council operation.

Sufficient Revenue Generation describes the critical need for developing, providing for, and executing the necessary strategies in order for the council to implement its mission as outlined in its strategic plan.

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I.

Good Governance—Board Oversight

The management of the council's finances is an important responsibility of the council executive board and its members. Each board member has the responsibility of voting for financial policies and the budget. All members must ensure they understand and agree with what they are approving.

The financial health of the council falls under the oversight of the executive board. The board uses the council's accounting reports, the approved budget, and financial policies to properly fulfill its fiduciary responsibilities. That is why it is so important that the executive board ensures management is capable of producing accurate and timely accounting information.

The council's executive board usually identifies officers and subcommittees to assist in some of the financial responsibilities. These include:

Treasurer—The treasurer has the responsibility for articulating to the board the financial health of the council. The treasurer works with the Scout executive in preparing the appropriate reports for presentation at committee, board, and annual meetings. The treasurer often reviews various accounting functions such as the bank reconciliations and internal controls for satisfactory compliance with appropriate financial policies.

Finance Committee—The finance committee, often chaired by a vice president, usually has the responsibility of overseeing management of the council's assets. Duties

include support in the preparation and evaluation process of the annual budget, oversight of the council's investments, and other responsibilities designated by the board.

Audit Committee—The audit committee's primary function is to contract an auditor for the purposes of an independent study of the accounting records and internal controls of the council. The audit committee receives the auditor's findings, including a management letter, which consists of recommendations for improvements. The committee then presents the annual audit report and recommendations to the full board. The audit committee should also test for management the effectiveness of the council's internal controls and approved financial policies. The audit committee chairman usually reports directly to the president, and the committee should have representation of non-board members with knowledge of not-for-profit accounting.

Development Committee—The development committee (sometimes referred to as the fund-raising committee) is primarily responsible for management of the council's fund-raising campaigns. These campaigns include operating fund campaigns such as Friends of Scouting, capital campaigns for renovations or new construction of facilities, and planned giving campaigns for the generation of gifts to the council's endowment funds. The development committee works with the full board and management to ensure the council has enough resources to effectively carry out its mission.

Fund Accounting

The accounting system of the Boy Scouts of America uses three funds to segregate the financial activity of the council based on the specified purpose of the activity. This comes about because donors and governing boards request that certain amounts of money be used for specific purposes. The council has the responsibility of seeing that the money is spent accordingly, and in order to fulfill this stewardship function, unique funds are established to account for each specified amount of money or other asset.

Each fund is an accounting entity complete with its share of assets, liabilities, and net assets. Revenues specified as belonging to the fund increase the net assets, while expenses incurred to accomplish the stated purpose of the fund decrease the net assets. The three funds are *Operating*, *Capital*, and *Endowment*.

Descriptions of Funds

The **Operating Fund** accounts for all the council's financial activity pertaining to the annual operation and delivery of the Scouting program. All accounts that do not belong in either of the other two funds are included in the Operating Fund. The Operating Fund is the primary fund, with the other funds' assets supporting it.

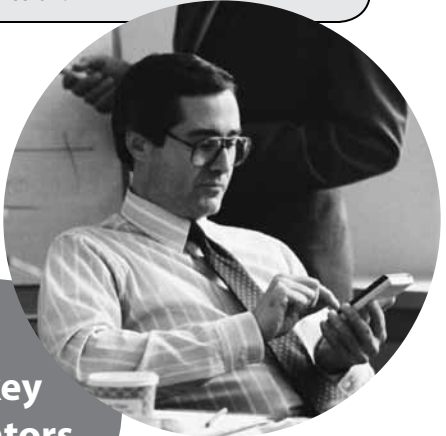
The **Capital Fund** accounts for all fixed assets the council owns, the related liabilities, if any, and amounts designated or restricted for the purchase of fixed assets. Income and expenses related to fixed assets are also part of this fund.

The **Endowment Fund** is used to account for investments designated by the board as endowment funds, or temporarily restricted by the donor to act as endowment funds, or permanently restricted by the donor as endowment funds.

Role of Management	Role of the Executive Board
<ul style="list-style-type: none"> • Maintain adequate and complete financial records. • Prepare accurate and timely financial statements. • Establish budgetary control. • Anticipate future financial assets. • Safeguard and manage financial assets. • Comply with federal and state reporting requirements. • Provide volunteers with training and ongoing support. • Facilitate process for recruiting of volunteers with appropriate financial skill set. 	<ul style="list-style-type: none"> • Volunteers should have a good understanding of the council operations. • Attend board meetings regularly. • Adopt and comply with the conflict-of-interest policy. • Ensure that the council maintains good credit and financial standing in the community. • Pursue warning signs. • Review the adequacy of the council's insurance program. • Ensure management has adequate financial resources to fulfill the council's mission.



Understanding the Financial Indicators of a Financially Healthy Council



12 key indicators

Listed below are 12 key indicators to assist board members in exercising their fiduciary responsibilities:

- The Scout executive has the ability to read, understand, and explain the council's four key financial statements:
 - Statement of Financial Position
 - Statement of Operations
 - Statement of Change in Net Assets
 - Statement of Cash Flows
- Sufficient internal controls are in place and have been tested periodically by the council auditor, audit committee, or treasurer.
- The executive board and appropriate subcommittees receive timely financial statements, i.e., within 30 days of the previous month-end. Each accounting month is closed within three to five business days. The year-end is closed within 10 to 15 business days.
- Unusual variances between actual and budget in revenue and expense accounts are explained, understandable, and reasonable.
- The council budget is approved prior to the start of the new fiscal year and entered into the general ledger by account number. The budget projects a "breakeven or better" at year-end.
- The transfer and/or borrowing of assets between funds has been authorized by the executive board. These include funds recorded in the transfer line on the Statement of Operations and the interfund line on the Statement of Financial Position.
- The council's unrestricted net assets in the Operating Fund are a positive number and are increasing from year to year.
- The council's liquidity ratio represents the council's ability to meet the 30-day demand with available cash. The ratio should be at least 1.33. Less than 1.0 represents a cash flow shortage situation. The liquidity ratio should be shared as part of the monthly statement presentation.
- Debt should be manageable and not excessive. Operating debt that is carried over from one year to the next needs to be included in a long-range, corrective-action plan.

- The executive board and appropriate subcommittees review the BSA ScoutNET-generated financial statements at every board meeting. Spreadsheets and other statements are acceptable for supplemental purposes but not as replacements.
- The council has an active and effective audit committee with a representation of non-board members. The audit committee and/or executive board contracts and evaluates the council's auditor. The annual audit is completed and submitted to the Boy Scouts of America by June 1. The auditor presents its report along with a management letter to the audit committee. The executive board also reviews the audit and management letter at its first available board meeting following the completion of the audit.
- A draft audit has been prepared by the auditor and reviewed by the audit committee. The audit committee confirms that all auditor's entries have been entered in the general ledger and the council's financial statements match the final audit exactly. The auditor's management letter is reviewed and appropriate action is undertaken, including a written response to the management letter. The audit committee keeps track of management letters over time to ensure identified weaknesses are not repeated in future years.



III. Suggested Questions a Board Member Might Ask

- Do we have a current strategic plan?
- Do we have a sound financial plan? Is it tied to the strategic plan?
- Do we have enough cash?
- Are our reserves satisfactory?
- Are our major expenses in line?
- Are we meeting our budget?
- Are our expenditures appropriate?
- Are we insured appropriately against risks?
- Are we meeting the guidelines and requirements set by the IRS for not-for-profits?
- How realistic is the budget?
- How often is the budget monitored?
- How volatile are the council's funding sources?
- Are there any trends in the sources of funds that may impact income?
- Is there adequate documentation of endowments, grants, and other donor funding?
- What is the council's endowment fund distribution policy? Is it within the recommended range of 3 percent to 5 percent?
- Is there a decline in the key indicators of cash flow, debt management, operating surplus, and revenue growth?
- Is the council current in its payroll taxes and benefits compensation?

IV. Understanding the Boy Scouts of America Financial Statements

1. Statement of Financial Position

The Statement of Financial Position reflects the cumulative value of the asset, liability, and net assets at a set point over time. It basically reflects what the council owns and owes. The Statement of Financial Position is composed of three funds:

- Fund 1 represents the council's operating position over time.
- Fund 2 represents the council's capital assets such as buildings and properties as well as funds restricted for capital purposes.
- Fund 3 represents the council's endowment funds held in perpetual trust as well as funds acting as endowment.

COMPONENTS OF THE STATEMENT OF FINANCIAL POSITION

Assets

Assets are items of measurable value owned by or owed to the council. An example of an asset is the council service center or

camp. Another asset is cash. Accounts and pledge receivables reflect a current asset that would be reasonably collectable as cash within a year. Assets that are depreciable such as buildings or vehicles are considered capital assets.

Liabilities

Liabilities are others' claims (or ownership) against the assets. Liabilities can be either short-term or long-term. Accounts payable, funds held in custodial accounts, bank loans, and mortgages are all types of liabilities.

Net Assets

Net assets are the council's ownership of assets net of others' claims. This is represented as the residual of total assets less total liabilities, or in other words, assets minus liabilities equals net assets. Net assets are categorized as unrestricted net assets, temporarily restricted net assets, or permanently restricted net assets. The Statement of Financial Position and Statement of Operations—Unrestricted are linked. At the end of each fiscal

year, any surplus or deficit is rolled into the unrestricted net asset account on the Statement of Financial Position. A surplus will increase the accumulated balance of unrestricted net assets, and a deficit will decrease the accumulated balance of unrestricted net assets. Net assets in each of the council's three funds may have restrictions. Those assets with temporary restrictions such as the construction of a building (purpose) or funds to be used in a future year (time) are reclassified as unrestricted once the restriction has been satisfied. Those assets that are given in perpetuity such as gifts to the council endowment fund are classified as permanent restricted assets.

SIGNS TO WATCH FOR

Interfund Loan

A negative number indicates the fund has borrowed money from another fund. A positive number would indicate that fund has loaned money to another fund.

Significant Increases

Significant increases in the case of receivables may indicate falsified revenue or at least a lack of aggressive collection activity. In the case of liabilities, significant increases may indicate failure to make timely payment, indicative of a cash shortage.

Negative Numbers

Any line with a negative number (with the exception of interfund loans) represents a "red flag." Typically, a financially healthy council would have positive numbers throughout the Statement of Financial Position. Negative numbers in the cash accounts usually mean funds have been transferred or borrowed between funds without using the interfund accounts as required.

2. Statement of Operations—Unrestricted

The Statement of Operations—Unrestricted summarizes the council's income and expenses. The statement shows where income comes from and how much is left (surplus), or was short (deficit). In the case of a deficit, the number is indicated as a negative.

Income is separated into two categories: contributions and revenues. Contributions are money that comes from direct contributions such as Friends of Scouting, special events, foundations, or from indirect contributions, which is money raised by other agencies and given to the council such as United Way or government grants. Revenues are generated from various sources such as camping and activities fees, income from investments, product sales (such as popcorn), and the council's retail sale of supplies.

Expenses are divided into two categories: employee compensation and other expenses. Given the mission of the Boy Scouts of America, it would not be unusual for employee compensation to average 50 percent to 60 percent of total expenses. Types of other expenses include postage, printing, professional fees, telephone, fees to specific individuals such as camp scholarships, and occupancy costs.

In addition to the surplus or deficit, the statement also records any cash or assets being transferred in or out of the council Operating Fund.

The Statement of Operations—Unrestricted is prepared monthly for executive board review. The board compares the figures in the statement to the approved budget. The statement reflects what has been received or pledged and what expenses have been recorded to date. Remember, the accrual method used by councils means the cash has not necessarily been received, nor all the bills actually paid.

Income and expense items are shown for the month and for the year to date. Year-to-date figures include all income and expense items paid from the start of the fiscal period to the end of the current period. The report allows for two different presentation formats. The first option (standard) includes a variance column that calculates the difference between actual and budget, whereas the second option (comparative) compares actual to last year at the same time.

Both options include a variance column that calculates the differences between actual versus budget or actual versus last year.

SIGNS TO WATCH FOR

Variations

Large variations compared against budget and/or the same time last year.

Transfers

Large amounts transferred in or out of the operating fund.

Unsustainable Revenue

One-time sources of income such as revenue from the liquidation of an asset.

While these signs may reflect acceptable transactions, they could indicate a declining cash flow position or, in the case of relying on unsustainable revenue to balance the operating budget, the risk of future budget deficit increases.

3. Statement of Changes in Net Assets

OVERVIEW

This statement (often called the Statement of Activities) is designed to show the reader the total income and expense for all funds and for all fund restrictions. It is an accurate representation of the detailed activities (income, expenses, and reclassification of restricted funds) that have changed the net assets.

In addition to showing income and expense, it also shows the type of income, with unrestricted, temporarily restricted, and permanently restricted contributions, and net assets that flow from those contributions.

The report shows comparative data by year and by fund. The comparison is with the same month, one year earlier, from the specified date of the statement.

