Financial Fitness: An Overview

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Funding for the Financial Fitness series was originally provided in 2007 by the Community Development and Partnerships Directorate of Human Resources and Social Development (HRSD) Canada. Cashflow Calisthenics was subsequently developed by Vancity and in 2009, with the support of a Shared Success grant from Vancity, the entire suite of workbooks was updated. In 2010, Enterprising Exercises was added to the series. And, in 2013, Accounting Athletics and Legal Limberness were updated to reflect changes in the rules and laws that govern not-for-profit organizations and charities.

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Financial Fitness by Vancity

The Financial Fitness series was developed by Vancity credit union to assist small and medium-sized not-for-profits and co-operatives to acquaint themselves, or reacquaint themselves, with the basics of operating a financially healthy and resilient organization. Not-for-profits always operate in the arena of change and uncertainty. The Sector Monitor published by Imagine Canada reported in October 2012 that charity leaders generally predicted increased challenges in the year ahead. Research done by the Ontario Trillium Foundation indicates the best way to support not-for-profits is to assist in developing resiliency, so not-for-profits can bounce from moment to moment and opportunity to opportunity.

The goal of the Financial Fitness series is to help with that resiliency, and in particular, to demystify some of the key financial, legal and accounting concepts which sometimes keep not-for-profits from feeling in control of their destinies, or speaking truth to power when dealing with allied professionals and funders.

Legal Limberness addresses the fundamental legal issues, from the duty of care to statutory obligations, for which the Board of Directors and senior staff (Executive Director and program managers) are responsible.

Accounting Athletics addresses the role and responsibilities of the Board and more specifically, the Finance Committee – the Treasurer, Executive Director, Accountant or Bookkeeper – in reading financial statements, what to look for and when to be concerned.

Cashflow Calisthenics focuses primarily on the roles and responsibilities of senior staff to maintain the financial well-being of a not-for-profit organization. It includes advice on cash flow planning and developing "what-if" scenarios, and provides guidance on how to work with allied professionals to improve cash position.

Enterprising Exercises supports the staff and board of organizations that are currently operating a social enterprise. It poses important operational questions, and provides tools and success metrics to help identify areas where a social enterprise could be made stronger or more focused.

Each of these four handbooks fits within the overall framework of Financial Fitness, an introductory course for improving the financial health and resiliency of not-for-profit organizations.

Canada's not-for-profit and voluntary sector is the second largest in the word, according to Imagine Canada. The full charitable and not-for-profit sector (including hospitals and universities) is the 11th largest contributor to Canada's gross domestic product (GDP) and plays a vital role in our country's economy, in addition to providing critical services to people and strengthening communities.

In 2007, Statistics Canada changed the way it tracks not-for-profit organizations in Canada, breaking the sector into three industry sectors:

- non-profit institutions serving households (NPISH), about 22% of all not-for-profits by GDP (religious, welfare, arts, entertainment, recreation, educational services and 'other');
- corporate sector, about 13%; and
- government sector, 65% of all not-for-profits (hospitals, unversities and colleges).

In 2009, the NPISH sector alone accounted for $22.1 billion of GDP activity and employed almost 529,000 people. Overall, the not-for-profit sector in Canada employs two million people and accounts for $106 billion of the GDP. [1]

That information alone is exceptional, but when layered with the fact that fully 54% of Canadian not-for-profits and charities are run entirely by volunteers – the collective accomplishments of these 161,000 organizations are truly awe-inspiring.

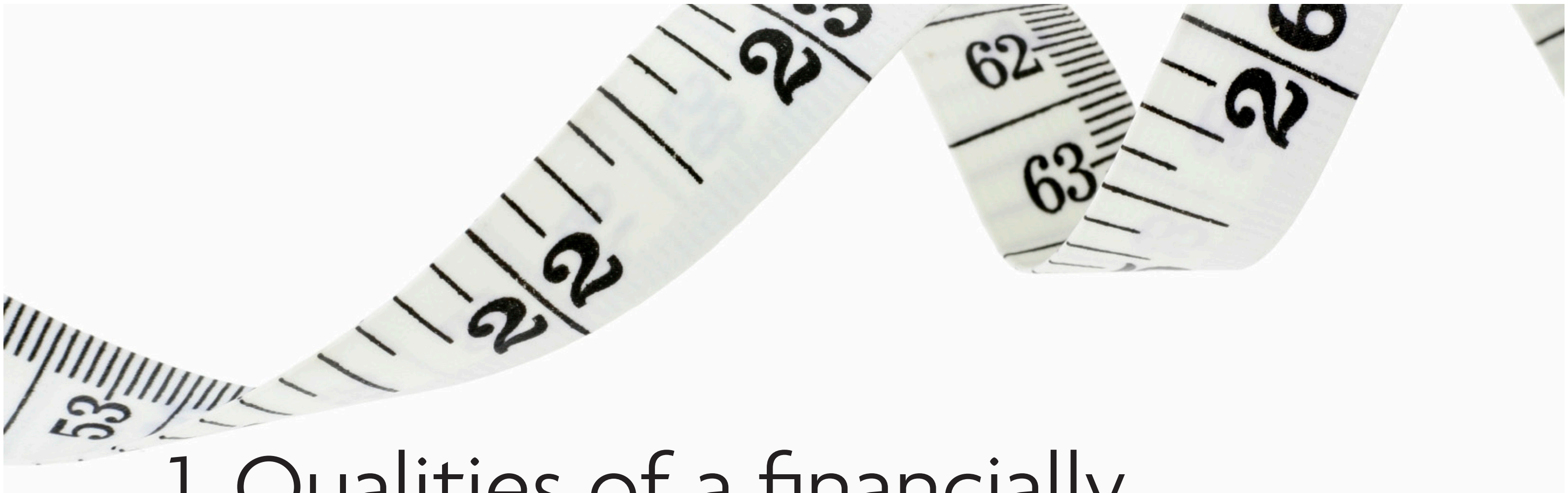
In British Columbia there are over 20,000 not-for-profit organizations, about half of which are also registered charities. Across BC, 1.5 million people volunteer, including on boards.

Common to all organizations are challenges of having stable funding (two-thirds of organizations experience this), planning for the future (55% of organizations experience this) and having enough volunteers, particularly at the board level (50% report this as an issue).

We hope these handbooks help build that core of financial health and resiliency of individual not-for-profits, and contribute to the collective financial fitness of the not-for-profit sector.

The Financial Fitness series is not meant to replace qualified financial, accounting or legal advice from professionals, but we hope these handbooks and the affiliated workshops will contribute to the collective financial fitness of the not-for-profit sector.

1 For more information and not-for-profit statistics see, www.hrcouncil.ca/documents/LMI_moving_forward.pdf and www.imaginecanada.ca/node/32



1. Qualities of a financially healthy organization

Every day across Canada, not-for-profit organizations are making important and critical contributions to the social, educational, environmental, religious and artistic well-being of their communities. All Canadians receive some kind of service offered by a not-for-profit, and many Canadians contribute volunteer labour to deliver these services.

Yet, despite the wealth of volunteer labour and goods so generously donated to the not-for-profit sector, it still takes money – real money – to deliver social programs and services with both the quality and consistency required by today's society. Some of the following qualities of a financially healthy organization may seem obvious on the surface, however, taking time to realistically evaluate how well your organization is meeting these standards might be enlightening – and could make the difference between struggling to make payroll and having a financial cushion.

The following sections represent many of the core qualities a financially healthy organization will have.

1. A strategic plan

A good strategic plan provides all the direction you will need to address financial management and develop policies and procedures.

All of the direction to explore issues related to financial management, and to develop policies and procedures, should come from a strategic and financial plan. The plan should have stated goals and objectives, as well as the resources required to achieve them. The most effective financial planning involves creating a three-year plan that is reviewed annually and checked against on a day-to-day operational level.

There are five basic tools of financial management to consider when developing your strategic plan:

1. A Board of Directors that is engaged and informed.
2. Financial Reports that are prepared in a timely way.
3. Financial Controls that are followed.
4. Cash Flow Planning that is reviewed monthly.
5. Cash Management on a daily and weekly basis.

Applies to us?	Recommended Action	Who is responsible? & Other notes
A strategic plan		
	1. If your organization does not have a long-term strategic plan, with both program and financial objectives clearly stated and measurable, create one now: a. Structure the plan in 3 to 5 year timeframes, with annual reviews. b. Identify the resources needed to reach goals, so you can take steps to achieve them.	
	2. If you have a long-term strategic plan, but do not have operational and performance plans with clear metrics to assess work against the larger strategic plan, create those plans now.	
	3. If your Board does not, or has not, reviewed your long-term plan, have a special Board meeting to do so.	
	4. Don't file your plan away: check your progress on a day-to-day operational basis.	
	5. Review the section on Strategic Planning in the Cashflow Calisthenics handbook.	
	6. If you operate a social enterprise, review the Enterprising Exercises handbook.	

2. Educated and informed decision-makers

The Board of Directors has overall responsibility for the health of any not-for-profit organization. The Board must inform its employees, the Executive Director and the management team of the organization's finances. Recent legislation in a number of areas has made Boards more accountable today than in the past.

At the very least, you need to have individuals at all levels of your organization who are informed about the range and limits in financial decision-making responsibilities, and who know the steps or processes to address gaps in knowledge and understanding.

This seems fairly obvious but in reality this is one of the most challenging aspects of building a financially healthy not-for-profit organization. Certainly, not everyone needs to understand the reports, but it is essential that a few key people can decipher and articulate what the information is telling them to the rest of the management, staff and Board.

When thinking of building financial sustainability it is important to consider the strengths and skills of all the people in your organization.

Applies to us?	Recommended Action	Who is responsible? & Other notes
Educated and informed decision-makers		
	1. Review the skills and experience of each member of your Board and management team: a. Do you have someone who can (and does) create timely and accurate financial statements? b. Do you have someone on the Board and someone on staff (other than your bookkeeper or accountant) who understands financial statements and information? c. Do you have a strong Finance Committee?	
	2. Note where there is overlap.	
	3. Make a list of the gaps in expertise that would benefit your organization's financial stability.	
	4. Recruit new Board members to fill these gaps.	
	5. When a hiring opportunity presents itself, consider adding the skill your organization is missing to the list of desired qualities in the new hire.	
	6. Review the recommendations in the Legal Limberness handbook.	
	7. Review the recommendations in the Accounting Athletics handbook.	
	8. Review the recommendations in the Enterprising Exercises handbook.	

3. A budget process

Budgeting should not be difficult, and the best place to start is with a historical review of past expenses, which are found in an organization's annual financial statements. Creating broad categories of all known expenses of the past year will form a solid base of the budget for the upcoming year.

Budgeting is liberating. It forces you to put all the mental sticky notes in one place, with explanations. Do your budget in an excel spreadsheet (or equivalent) and make note of all your assumptions. Write them down right in the spreadsheet as comments, and you won't have to remember why you made certain assumptions where, when and why.

Make sure you ask all your program managers, and your accounting staff, for their thoughts as well. And, if you have a big enough organization and are inclined to make this an inclusive process, pose an open question to staff for what else they would like the organization to be doing (and to be funded).

Applies to us?	Recommended Action	Who is responsible? & Other notes
A budget process		
	1. Once you've turned your financial statements into something that looks like a budget, it's important to consider any plans for increases in the following areas: a. Staff salaries and compensation (which is generally about 75% of total expenses). Consider: • What would you like to improve this year? • If your workforce includes unionized labour, make sure you read the collective agreement closely to budget for any. • Consider any succession or transition planning at the staff level that may be upcoming, particularly at the senior staff/executive director level. Costs to consider include hiring outside consultants to manage the process, overlap between staff, payout packages to departing staff, and recruiting or relocation costs. b. Rent and premises costs • If you are on a lease, is the rent set to go up? • Is there an associated amenity fee, which is going up? • Is it the right time to consider buying your own premises? c. Equipment leases • Do any of your leases for equipment have balloon or escalating payment clauses? d. Repairs • Will you need to make any extraordinary but necessary repairs to premises or equipment this year? For instance, you probably budget to replace 1/3 of your computer fleet each year, but perhaps this year, you need to fully replace your file server. e. Programming • Are there any new areas set out in your strategic plan that need to be included in the budget? • Are any new funders knocking at your door for new program areas?	

Applies to us?	Recommended Action	Who is responsible? & Other notes
	2. Take a good look at your communications plan, and make sure you budget in any new outreach initiatives.	
	3. Check with your fundraising department, and budget for any donor stewardship expenses they may be planning.	
	4. Consider your risk tolerance for any issues that may be percolating – is there any chance you would have legal costs in the coming year? Typically, you don't hope for those, but a prudent review of any issues arising from HR practices, or any board liability exposure, should be canvassed here.	
	5. Review the recommendations in the Strategic Planning section and the Cash Management section of the Cashflow Calisthenics handbook.	

4. Accurate and timely financial reports

Financial reports, if produced accurately and in a timely way, are adequate tools for on-going monitoring of operations. Financial reports are an organization's internal road map, providing direction, possible roadblocks and alternative routes. Different reports are needed at different times during the course of the year but all should refer back to an organization's global budget.

The reports an organization prepares will depend on a variety of factors, including the extent to which the organization is financially stable; degree or extent to which the financial picture changes during the fiscal year; the capacity of the organization to have sufficient cash flow at all times to meet their on-going obligations; and, the ability to produce the information needed to support decision-making.

Applies to us?	**Recommended Action**	**Who is responsible? & Other notes**
Accurate and timely financial records		
	1. Review all of the financial reports your bookkeeping/accounting team prepares, asking the following questions: a. Does each report provide value to the ongoing management of our organization? b. Are the reports giving management and the Board the information needed to fulfil their responsibilities? • If not, what needs to be changed? c. Are the reports delivered when the information is still meaningful and can be acted on to change course, if need be? • If not, what needs to be changed?	
	2. Review the recommendations in the Financial Statements section of the Accounting Athletics handbook.	

5. Internal controls

Internal controls are the means by which an organization's financial, physical and reputational resources are directed, monitored, measured and protected. Internal control procedures reduce process variation, leading to more predictable outcomes and so, to a more financially healthy organization. Some of the areas in which your organization should consider creating detailed procedures and policies in the form of internal controls include:

1. How cash receipts are handled.
2. How petty cash is managed.
3. How payables are handled.
4. How receivables are handled.
5. What appropriate travel expenses are and how these should be claimed?
6. How the daily bank accounts are managed.
7. How purchases are controlled.
8. How office supplies and other hard goods are accounted for.
9. How investments are managed.
10. How payroll is managed.
11. How capital and non-capital assets are safeguarded.
12. How external communications are managed.

Applies to us?	**Recommended Action**	**Who is responsible? & Other notes**
Internal controls		
	1. Review all of the internal controls you have in place in your organization. Does each report provide value to the ongoing management of our organization? a. Are they clearly defined? b. Do they have objective parameters for making financial decisions? c. Are all levels of the organization included? d. Is there a mechanism for identifying and addressing concerns related to each control or how it is (or is not) being implemented.	
	2. Identify if all controls are being implemented in a consistent fashion.	
	3. Determine if all control policies are being matched in practice.	
	4. Determine if any existing controls need to be revised.	

Applies to us?	Recommended Action	Who is responsible? & Other notes
	5. Determine if new internal controls are needed.	
	6. Review the recommendations about internal controls in the Accounting Athletics handbook.	

6. Sufficient money for stable programming

The majority of any not-for-profit's programs and services must be self-sustaining (or even surplus generating), with sufficient money to cover actual costs. However, for a number of reasons, organizations will sometimes take on a loss-leader (or money-losing) contract to fulfill a mandate or to meet a need in the community. Loss leader contracts can be an excellent way to strengthen an organization's presence in the marketplace and can serve to diversify revenues, but should only be considered if other programs are stable and can contribute resources to the loss-leader project. It's important to avoid the house of cards that can occur when management does not keep a balanced approach between organizational sustainability and service delivery.

The better you know the true costs of your program delivery, the better prepared you'll be to submit realistic grant proposals with realistic budgets – key factors in assuring your organization's stability. Even if you are compelled to submit a budget that you know does not meet the true costs of the project, having that knowledge before engaging in new work means going into the contract with eyes wide open.

Applies to us?	Recommended Action	Who is responsible? & Other notes
Sufficient money for stable programming		
	1. Review each and every one of your program offerings with an eye to determining the true cost of delivery.	
	2. Use the tools in the Cashflow Calisthenics handbook to help in this process.	
	3. With Board and management team make what may be tough decisions about your current programs.	
	4. If you find that you've been subsidizing program delivery, talk to your funders about amending deliverables so that the grant or contract does not cause undue financial hardship on your organization.	
	5. If you manage a social enterprise that is losing money, review the Enterprising Exercises handbook to help you determine if this is in your organization's best interest or not.	

7. Diversified funding

Some financial experts advise that it's ideal to have an organization's revenue well-distributed between multiple funding sources. This is called diversified funding. An organization's ability to diversify its funding will be influenced by the community that the not-for-profit serves, its geographic location and the skill set of the people employed and volunteering with the organization.

Diversified funding will differ from organization to organization. For some organizations, diversification comes from the split of revenues between donations, fees for service and interest income. For other organizations, diversification will come from the funding and contract splits between local, provincial, federal and international government bodies. For others, it may mean broadening program offerings to add new areas of competency to meet new or unmet community needs.

Your goal should be to have a funding base that is diversified between foundation, corporate, government and individual sources within donated revenue. It's essential that you be prepared for the loss of a key funder with a strategy that will prevent that loss from crippling or killing your organization. Diversified funding is a strategy that can help manage this situation.

Applies to us?	**Recommended Action**	**Who is responsible? & Other notes**
Diversified funding		
	1. Make a list of all of the sources of income you rely on.	
	2. Determine what percentage each source contributes to your overall income.	
	3. Develop a strategy to start to balance funding sources.	
	4. Begin the conversation about how your organization would respond to losing one of your key funders, so that, in the face of receiving such news, you'll be able to address the situation with more than a knee-jerk reaction.	
	5. Review the recommendations in the section titled Diversify your Funding Sources in Cashflow Calisthenics.	
	6. If your organization has or is considering launching a social enterprise, see the Enterprising Exercises handbook for advice.	

8. A positive cash balance

A positive cash balance means managing cash to avoid budget deficits. The goal of a positive cash balance is to make the not-for-profit financially strong enough to leverage additional resources for future needs. Unfortunately, many not-for-profits find themselves confronted by budget deficits because of declining dues, donations, grants, and so on, putting them in a negative cash balance situation.

Improving cash management can help your organization accumulate cash, and improve your cash flow and financial position.

Applies to us?	Recommended Action	Who is responsible? & Other notes
A positive cash balance		
	1. Pay close attention to when major expenses are incurred from year-to-year and any major expenses that will be unique to the next twelve months.	
	2. Review all of the places where you generate income in terms of the anticipated timing of the receipt of those funds.	
	3. If necessary, move funding and/or fundraising appeals so that income arrives before a major expense has to be paid.	
	4. Review the section on creating a cash flow in Cashflow Calisthenics and follow the recommended actions there.	

9. Access to cash in times of shortfall

In the context of building a financially healthy not-for-profit organization, the word “cash” is being used loosely. What is of utmost importance is ensuring that a not-for-profit has the ability to draw upon accessible assets in the event of a cash shortfall.

Assets are resources that you own that can be used to benefit future operations. Assets are also known as “capital,” which are the items on your balance sheet. On the balance sheet assets appear as cash, investments (stocks, bonds, etc), buildings, equipment, accounts receivable, and reserves.

Off the balance sheet assets appear as building equity (market vs. book value); staff, volunteers and other human capital; reputation, goodwill toward your organization and other social capital; publications and other intellectual capital.

Applies to us?	Recommended Action	Who is responsible? & Other notes
Access to cash in times of shortfall		
	1. Make a complete list of all of your organization’s assets.	
	2. Put a current-day value – a dollar amount – against each item.	
	3. List the assets in order of most fluid (easiest to dispose of) to least fluid.	
	4. Review the recommendations for managing cash in the Cashflow Calisthenics handbook.	

10. An operating reserve

Establishing a sustainable operating reserve that provides the capability to plan with the capacity to act will increase the financial sustainability of a not-for-profit organization. A reserve can therefore mean cash (in the bank or an investment), but it can also mean a line of credit, access to a bank of volunteers, or access to professional advice.

Following are some of the most common times an operating reserve can mitigate stress and protect an organization from financial crisis:

- To meet short-term financial challenges that sometimes arise when expected grants or other receivables are delayed.
- To react to unexpected demand on services when external events create a need – such as extreme cold weather or mass lay-offs in the constituency area.
- To get back to business quickly in the event that computers are stolen, or a service vehicle breaks down.
- To respond to an unexpected opportunity such as buying a much-needed piece of equipment for a deal.

How much your not-for-profit holds in reserve is dependent upon many things, including anticipated funding or contract cutbacks, payroll increases and your credit worthiness.

Applies to us?	**Recommended Action**	**Who is responsible? & Other notes**
An operating reserve		
	1. Work with program staff to analyse what amount of money would be required to address the situations described above and any other situations that would put your organization in a state of financial crisis.	
	2. Work with your Board to develop a strategy to create an unrestricted revenue stream and invest some amount of that income into an operating reserve each month.	
	3. Move any annual surplus into either an internally-restricted reserve fund (a Board designated fund) or an externally-restricted reserve fund (funder conditions).	
	4. Follow the recommendations in the Cashflow Calisthenics and the Accounting Athletics handbooks for strategies to get your organization into a space where surpluses are the norm.	

11. Systems for compliance with legal rules

The legal and regulatory environment within which all not-for-profits operate can be a complex and confusing component of effective organizational management. The same regulations that make it possible to provide much-needed services and programs on a tax-free basis, also create their own reporting, registration and governance issues for not-for-profits.

Without a system for dealing with all the various compliance requirements, it is too easy to forget to file a Society return on time, or when to check that your GST remittances have been made. And, with a changing cast of Board and staff, particularly in a small organization, the chance that something will get missed is quite good. One of the simplest and most effective systems for complying with legal rules is to set up a calendar of actions in a kind of bring-forward file. No matter what kind of system you use – paper or electronic, calendar or recipe box, or binder with months in index tabs – take the time to go through each key reporting, registration and governance requirement (set out in your Constitution and Bylaws, your Society and Charity returns, your government remittances, your contracts with funders, your agreement with your landlord and your financial institution) and write down each requirement.

And, when you next meet with your banker, your lawyer, your accountant, your auditor and any other allied professional, ask them to review your bring-forwards with you, in case you are missing any, or so they can let you know if any new reporting requirements have arisen. This system will also reassure any member of the Board of Directors that all reporting requirements are known, and will be met. Having this one-stop place of all your filing requirements will bring peace of mind that you haven't forgotten some small but critical piece of work to keep your organization in good regulatory order, and good financial fitness.

Applies to us?	**Recommended Action**	**Who is responsible? & Other notes**
Systems for compliance with legal rules		
	1. Each time you meet a regulatory filing requirement, check that it is listed in your bring-forward system – if not, add it now.	
	2. Meet with your allied professionals to review the legal and regulatory items accumulated in your bring-forward system.	
	3. Review the recommendations in the Legal Limberness handbook.	

2. Summary of Recommendations from the Handbooks in Financial Fitness

Refer to the individual handbooks for details and background information about each of the recommended actions. The topic heads can be found in the Table of Contents to help you match this document with the original handbook information.

Accounting Athletics

Applies to us?	Recommended Action	Who is responsible? & Other notes
Responsibilities of the Treasurer / Finance Committee member		
	1. Know the business of your organization. Understand the work your organization does and how it fulfills its mandate. Learn how to assess the risks associated with the work you do and develop methods to mitigate these risks. Look both at your own successes and failures and those of similar organizations and make note of how these are assessed and communicated, both internally and externally.	
	2. Develop a culture of trustful scepticism. Ensure there is a mechanism or a person to ask difficult questions, provide the reality check and test the conventional wisdoms and myths. Because of training and position in the organization, the role of trustful sceptic often falls to the finance person. This role can be made easier by removing personalities and developing fact-based, decision-making processes.	
	3. Ensure the Board Nominating Committee keeps the need for the finance area in mind. Develop an active and forward-looking Nominating Committee that understands the skills needed to create a solid Board of Directors with qualified people to assume the role of Treasurer. Start the annual recruitment process early.	
	4. Keep your eye on both the financial and non-financial information. Staying informed on financial progress is understood as a primary responsibility. It's also increasingly important to develop effective methods of reporting non-financial information. Program outcome information for internal and external groups, particularly funders and the Board, will show the effectiveness and momentum of programs.	
Cash versus accrual method of accounting		
	1. Determine what method of accounting your bookkeeper or accountant is using on a month-to-month basis.	
	2. If the cash method is used day to day, ensure that the books are "trued-up" to the accrual method either monthly or quarterly.	

Applies to us?	Recommended Action	Who is responsible? & Other notes
Accounting management		
	1. To determine if your not-for-profit has the best solution to your financial management needs, consider and evaluate the following questions:	
	a. Does your current solution cover both the straightforward payment of bills and reconciliation of bank accounts?	
	b. Are you getting timely and accurate financial information, particularly in the areas of variance analysis and budgets?	
	c. Are you maintaining good financial controls and are you informed about problems in advance?	
	d. Would your organization be better served by having a bookkeeping person at a low rate of pay for a number of hours doing the simpler work of approved bill payment and receipt tracking and a more experienced and trained person for a higher rate and fewer hours doing the more complex work of financial management?	
Tools for managing books		
	1. The following questions can help you make an informed purchasing decision about accounting software:	
	a. Have you prepared a needs assessment on your systems based on feedback from users of the information, including staff and Board? Think in terms of what the different members of the Finance Committee will need, as well as how the software serves different staff functions.	
	b. Does your accounting staff understand the capabilities of the software they are currently using – have they been to training or called the help desk to learn more?	
	c. Has someone from your team talked with other similar-sized organizations to compare challenges and software?	

Applies to us?	Recommended Action	Who is responsible? & Other notes
General ledger and audit trails		
	1. If during the financial review process there are recurring questions about figures and explanations are slow in coming – spend some time reviewing account transactions.	
	2. If you want to become better informed on what is going on behind the numbers – review and discuss the bank reconciliation, accounts receivable/payable and payroll processing with your accountant/bookkeeper.	
Internal controls		
	1. Review last year's management letter from the auditor, to identify any potential gaps in security identified through the audit.	
	2. Ask your staff leadership to confirm the policies and practices in place to authorize payments, transfer funds, make investments, etc.	
	3. Ensure your staff leadership is actively monitoring financial transactions and is reporting to the Board.	
	4. Annually, choose one area on which to focus and ask the Executive Director to produce the policies that set out the controls, and to run a practice test of those controls internally. For example, if there is a policy that the mail is opened by two staff during the annual appeal (when cash donations might be received), ask the Executive Director to monitor the mail opening for a day or two and report back to the Board.	

Applies to us?	Recommended Action	Who is responsible? & Other notes
Authority and authority leaks		
	1. Review your organization's cheque-signing and transfer authority policies.	
	2. Do a spot check of all cheques that were signed and transfers that were initiated in the last three to six months (depending on the quantity) to determine if your policy is being followed.	
	3. If the policy is being followed 100% of the time, acknowledge staff and Board for their diligence.	
	4. If the policy is not being followed 100% of the time, address the authority leak.	
	5. If you determine that your policy is not adequate to protect the best interest of the not-for-profit, write a new policy for discussion and adaptation by the Board.	
Contract authority on leases and contracts		
	1. Review your organization's policy on contract authority on leases and contracts.	
	2. Review all active contracts and commitments to determine if your policy is being followed.	
	3. If the policy is being followed 100% of the time, acknowledge staff and Board for their diligence.	
	4. If the policy is not being followed 100% of the time, address the authority leak.	
	5. If you determine that your policy is not adequate to protect the best interest of the not-for-profit, write a new policy for discussion and adaptation form the Board.	

Applies to us?	Recommended Action	Who is responsible? & Other notes
Investment issues		
	1. If your organization does not have an investment policy, begin the discussion at the Finance Committee level, to create one even if at this point in time you don't see a pressing need for one.	
	2. If your organization has an investment policy, have the full Finance Committee review it to ensure that it is both relevant to your current situation and is being followed. Consider having your banker or investment advisor provide input and comment on the policy.	
	3. If you feel that your investment policy is too restrictive or does not make sense given your organization's current situation, bring in an expert to guide you in the development of a new policy.	
Bank controls		
	1. Have the Executive Director or Treasurer review and sign each bank reconciliation in a timely manner.	
	2. Consider having the Executive Director or Treasurer review both bank statements and returned cheques before giving to these to the bookkeeper or accountant.	
	3. Restrict the ability of employees to move funds through different bank accounts.	
	4. Restrict the transfer of funds on investments outside the organization.	
	5. Require two signatures on each cheque and never pre-sign cheques.	
Payroll controls		
	1. If the Executive Director is responsible for cutting payroll cheques, have the Treasurer review and sign each payroll run, if possible, before cheques are cut. If a bookkeeper or accountant cuts cheques, have either the Executive Director or Treasurer review and sign the payroll run.	

Applies to us?	Recommended Action	Who is responsible? & Other notes
Payable controls		
	1. Require that every invoice be initialled for approval by the individual who has budget responsibility for the expense.	
	2. Request that cheque-signers ask questions about unusual or large invoices.	
	3. Circulate financial information that includes variances to program staff on a regular basis and encourage staff to review transaction listings and ask questions if they have any.	
	4. Ensure there is an expense account policy in place and consider having the Treasurer personally review all of the Executive Director's expense accounts on a quarterly basis.	
Personnel policies and procedures		
	1. Put personnel policies in place to eliminate the opportunity for misunderstanding - include things like hiring, performance monitoring and discipline, contract relationships, hours of work, payment for overtime, holiday, benefits etc.	
Gift acceptance policy / designations policy		
	1. Develop a gift acceptance policy to identify gifts that can be received in the normal course of business and those that will need a higher level of approval (or refusal). A gift acceptance policy will also ensure that gifts and large donations are made in accordance with legal and ethical regulations and guidelines.	

Cashflow Calisthenics

Applies to us?	Recommended Action	Who is responsible? & other notes
Why and how to do long-term financial goal-setting		
	1. Create a team of both staff and Board members who are passionate about visioning, planning and the process of getting from here to there.	
	2. Research trends around your organization's mission-area to help you understand whether your own organization should be looking forward to growth or to reducing services.	
	3. Talk to your government and foundation funders to determine how committed they think they will be to your issue area in three years.	
	4. Determine what your organization needs to remain healthy. This includes operating support, programming support, capital improvement needs, investments in endowment funds, etc.	
	5. Do some blue-sky thinking about your desires, which are different than needs in that they are not necessary for you to continue operating, but would make your work more effective, make staff life easier, provide services for expanded mission-work, and so on.	
	6. Prioritize your needs and desires.	
	7. Starting at the top, with priority number one, determine how much money it will cost to achieve that goal.	
	8. With the financial target established, figure out where the funds to make that goal a reality could come from.	

Applies to us?	Recommended Action	Who is responsible? & other notes
	9. Write the goal using the SMART method: ensure that each goal is Specific, Measurable, Achievable, Realistic, and Timed.	
	10. Create mini-plans, following the SMART model, with medium-term and short-term targets for each long-term goal. Staff, Board members and other committed volunteers should take responsibility for moving forward on each target.	
	11. While working to achieve your organization's financial goals, review progress on an annual basis with an eye for adjusting targets.	
Budgeting for overhead costs		
	1. If you've not already done so, calculate the true cost of each of your employees.	
	2. Using your most recent fiscal year-end numbers, calculate your overall overhead costs. Be sure to include the following items: a. Rent/mortgage b. Utilities c. Telecommunication costs (include internet, phone lines, cell phones) d. All costs related to board meetings (room rental, food, travel and hotel costs for out-of-town members, etc.) e. All non-staff accounting expenses (auditor, contract accountant) f. Any non-program staff who support the overall functioning of your organization, such as a receptionist, bookkeeper, communications officer, etc. g. Other?	
	3. Test each category to determine that you have appropriately, and completely, counted overhead by working against all the expense categories in your accounting general ledger.	

Applies to us?	Recommended Action	Who is responsible? & other notes
	4. Review each and every program you deliver and assign an appropriate percentage of the cost of each of your overhead expenses to each program. For instance, if you have one program that uses half of your office space and half of your program staff resources, assign that program 50% of the overhead costs.	
Creating a cash flow projection		
	1. Estimate your monthly revenue. Hint: Use revenue from previous years to forecast revenue for the coming year.	
	2. Estimate the amount of revenues that will be cash (from donations or sales) and the amount that will be credit (such as grants, government contracts or credit sales).	
	3. Plan for accounts payable on a monthly basis, according to revenue projections.	
	4. Be thoughtful about what month you apply revenue from accounts receivable.	
	5. Once total cash collections and total cash payments on goods purchased have been estimated, use the cash flow worksheet to list all cash transactions for the month.	
	6. Once completed, revise your cash flow on an ongoing basis. At the end of each month, enter the actual cash flow figures next to the projected figures in your cash flow spreadsheet and compare them.	
	7. If the projected figures vary considerably from the actual figures, it may be necessary to revise the figures for succeeding months. In extreme situations, it may be necessary to rethink particular aspects of your organization's operations.	

Applies to us?	Recommended Action	Who is responsible? & other notes
Engaging in sensitivity analysis		
	1. Talk to the people who have some amount of control over the variables that will impact your organization's revenue and expenses.	
	2. Create a list of all of your major funders, contract partners, regular donors (both high value donors and long-standing regular donors), and any other organizations that provide your organization with income.	
	3. Schedule time to talk to everyone on your list and ask if they foresee any changes to your current relationship with them, if they anticipate your funding will be the same next year, etc.	
	4. Create a list of all the organizations your not-for-profit pays money to, such as your landlord, the labour union to which your staff belong, regular contractors such as designers, printers, etc.	
	5. Schedule time to talk to all of your suppliers and contractors to whom you pay money, to see if they anticipate any major changes to their rates in the coming year.	
	6. Working with best case, status quo, and worst case scenarios, determine what the outcome of the different scenarios could be on your organization. These are often called, "what-if" scenarios.	
Cash management strategies		
	1. Take inventory of spending,	
	2. Check discretionary spending,	

Applies to us?	Recommended Action	Who is responsible? & other notes
	3. Review staffing issues.	
	4. Reduce spending on overhead.	
	5. Diversify your funding sources.	
	6. Implement strategies to prevent fraud.	
	7. Seek advice from outside advisors.	
	8. Streamline banking.	
	9. Borrow the right kind of money.	

Enterprising Exercises

Applies to us?	Recommended Action	Who is responsible? & other notes
Clarity of purpose		
	1. If your social enterprise does not already have a clear definition of its primary purpose, develop one now.	
	2. Ensure this purpose statement is understood and agreed to by all stakeholders, including your Executive Director, all social enterprise staff, Board members, funders and investors.	
The right business		
	1. List all of your social enterprise's competitive advantages.	
	2. Communicate these to all social enterprise staff and your organization's communications and/or fundraising staff so they are intentionally leveraged in donor, funder, supporter and member outreach materials.	
	3. Hire or recruit a volunteer other than your social enterprise manager to undertake a survey of external attitudes about and experiences with your SE. Ensure that responses are anonymous.	
	4. Contact clients, customers, partners and strategic allies to determine their perspectives on the effectiveness of your social enterprise at achieving your primary goal.	
	5. Have the researcher report the survey results to the Board, Executive Director and SE manager.	
	6. If results indicate that your SE's primary purpose is not being as well-served as respondents believe it could be, address the areas of concern.	

Applies to us?	Recommended Action	Who is responsible? & other notes
Business plan		
	1. Ensure all Board members have a copy of your SE business plan.	
	2. Add updates to the plan as part of regular management reports and planning discussions.	
	3. Ensure all key business assumptions are clearly articulated in the business plan and have been reviewed by management.	
	4. Clearly articulate the method for allocating shared overhead. Ensure this method is understood and accepted by all relevant staff and decision-makers.	
	5. Determine how your SE's gross and net profit margins compare with industry norms.	
	6. Review how consistent your margins have been over time and across projects.	
Focus		
	1. Develop a statement of focus.	
	2. Create a list of areas that are not part of the focus.	
	3. Compare your existing work to this statement of focus.	
	4. Implement a process for deciding on possible expansion to create new areas that serve the business focus.	
Risk assessment		
	1. If you do not have a risk management plan, develop one now.	

Applies to us?	Recommended Action	Who is responsible? & other notes
	2. Ensure all Board members review and sign-off on your risk management plan.	
	3. Put in place the structures to ensure the plan is regularly up-dated.	
Know when to stop		
	1. Develop Board-approved definitions of success and failure that would trigger shut-down.	
	2. Develop a Board-approved exit strategy that covers at least all the elements listed above.	
Legal issues related to structure		
	1. If you have not already done so, attain a reliable and current legal opinion that justifies your structure.	
	2. Ensure your Board is aware of issues related to the different structures that your social enterprise and not-for-profit could assume.	
Project management		
	1. Evaluate the level of project management training and experience your social enterprise manager has.	
	2. Review his/her decisions related to time, money and quality (in-cluding mission-related deliverables).	
	3. Determine if the current decision-making process is meeting the needs of the social enterprise and your not-for-profit. If not, clarify expectations with the social enterprise manager.	
Cash flow		
	1. Develop three separate cash flow projections: one for best case, one for expected and one for worst case scenarios.	
	2. If needed, consult Cashflow Calisthenics for detailed advice and support in creating cash flow projections.	

Applies to us?	Recommended Action	Who is responsible? & other notes
	3. Identify your social enterprise's current ratio, quick ratio and days in receivable.	
	4. Seek opportunities to build cash reserves.	
Revenue and profit		
	1. Determine your SE's gross profit margin.	
	2. Determine your SE's net profit margin.	
Management and reporting		
	1. Develop customized management accounting reports to illuminate the most important issues facing your social enterprise.	
	2. Update and share this information with the Executive Director and Board at regular management meetings.	
Manager		
	1. When doing the annual performance review of your social enterprise manager, add a review of and conversation about their alignment with your SE's primary purpose.	
	2. Review your performance incentives to align with operating a social enterprise	
	3. Discuss the career planning of your social enterprise manager. Identify options for professional development to encourage him/her to stay with your social enterprise over the long term.	
Executive Director		
	1. Whether or not your Executive Director acts as the social enterprise manager or is simply support to another individual, undertake an opportunity cost analysis of the hours the ED spends each month supporting the SE.	
	2. Ensure the ED understands and monitors all the financial reporting tools that the social enterprise is using.	

Applies to us?	Recommended Action	Who is responsible? & other notes
Board		
	1. Undertake a comprehensive Board skills audit and determine if there are areas where the current Board is weak.	
	2. If weaknesses are identified, develop a strategy to fill the knowledge and experience gaps.	
	3. Create a formalized structure for ensuring "the hard questions" are asked, including Board roles and responsibilities related to "advice and assistance" and '"risk limitation".	
Staff		
	1. Develop a clear list of the benefits of working for your social enterprise.	
	2. Create an equally honest assessment of the areas where your social enterprise could be seen as lacking, such as long hours to start, work on weekends, lower salary than a comparable for-profit position, etc.	
	3. Carefully consider the skill and experience level needed by your social enterprise manager to be successful.	
	4. Develop policies around conflict of interest, non-competition, intellectual property, and moonlighting.	
Organizational culture		
	1. Develop strategies to ensure the social enterprise culture is understood and articulated to the parent organization and vice-versa so that the social enterprise remains rooted to the overall mission.	
	2. If there is any tension between social enterprise staff and program staff, hire an outside consultant to facilitate a staff retreat to address this issue.	

Applies to us?	Recommended Action	Who is responsible? & other notes
Partnerships		
	1. Do some creative thinking about possible new partnerships for your social enterprise. Involve the entire staff in a blue sky, brain-storming activity. This will serve the dual purposes of bringing fresh ideas to the table and help non-SE staff feel more connected to the business side of the organization.	
Communication		
	1. Using the information gathered and gleaned in the "Active Planning" section of the Enterprising Exercises handbook, create a communication plan.	
	2. Share the communication plan with all staff, including your front line receptionist, your bookkeeper, and any other staff who have no direct connection to the operation of the social enterprise or your not-for-profit programming. All staff should be advocates of the social enterprise and need to be clear on how to communicate about the SE externally, in both official and personal conversations.	
	3. Share the communication plan with your Board.	
	4. Ensure one person has the responsibility to oversee the recommendations in the communication plan; and make that an official part of their job, not a side-of-desk activity.	

Legal Limberness

Applies to us?	Recommended Action	Who is responsible? & other notes
Being prepared for legal issues		
	1. Review the following list and, if your organization does not have certain documents, determine whether this should be addressed. Important documents: • Letters patent (and supplementary letters patent, if applicable) • Articles of Incorporation • Constitution and amendments • Bylaws and resolutions • Unanimous member agreement • Mission statement • Records of Board decisions and membership meetings • Membership records • Policy statements • Government filings • Charitable registration • Government filings • Charitable registration • Memorandum and Rules • Contractual records Other legal documents: • Documents relating to charitable assets • Leases, deeds and mortgages • Agency, association and joint venture agreements • License agreements • Business name, trade-marks, domain names	
Governing documents		
	1. Review your organization's incorporation documents and make note of whether it has been provincially or federally incorporated.	
	2. Review all activities undertaken by your organization, including fundraising appeals, to ensure these activities are aligned with the purposes set out in your incorporation documents.	

Applies to us?	Recommended Action	Who is responsible? & other notes
	3. If you find that you're provincially incorporated and engaging in activities outside your province, seek legal advice immediately.	
	4. If your organization is federally incorporated, check that it has any required provincial registrations.	
Letters patent		
	1. Review your Articles to ensure that the operating name of the organization is the registered name and that its objects are exclusively charitable.	
	2. Review all the activities carried out by the charity to ensure they are authorized by its charitable objects.	
	3. Review the dissolution clause to ensure it is complementary to the charitable objects.	
	4. Prepare and file a transition application if your entity was incorporated under the CCA.	
Constitution and amendments		
	1. Review your constitution and amendments to ensure the purposes are clearly stated and correctly reflect how the organization actually operates.	
	2. Find documentation that confirms that the current constitution is filed with the appropriate government agencies, such as the Canada Revenue Agency and the Corporate Registry.	
Bylaws and resolutions		
	1. Review your organization's bylaws at least every three years.	
	2. Ensure your bylaws do not conflict with your letters patent, Articles or constitution.	
	3. Review bylaws in relation to any changes in legislation to ensure they are on-side.	
	4. Ensure there is adequate indemnification provision.	

Applies to us?	Recommended Action	Who is responsible? & other notes
Mission statement		
	1. Review the mission statement at least once every two years.	
	2. Ensure that the mission statement that is being used to inform day-to-operations is consistent with the purposes set out in your governing documents.	
	3. When reviewing your mission statement, ask questions such as: a. Does the mission statement accurately reflect the purpose and the aim of the organization today? b. Does it accurately reflect the primary stakeholders or clients we are working with and our responsibilities to these stakeholders? c. Are the services we offer reflected in the mission statement? d. If you answer 'no' to any of these questions, either your mission statement should be updated, or your programming should be changed so that the two are aligned.	
Records of Board meetings and/or membership meetings		
	1. Ensure the Secretary understands what information must be captured in the minutes at all Board and membership meetings.	
	2. Find and create hard copies of all Board and membership meeting minutes and keep these together in one file.	
	3. Create a separate document for all decisions that impact the operations of the organization.	
Membership records and other records required by law		
	1. Check that all required registers are current and contain the required information.	

Applies to us?	Recommended Action	Who is responsible? & other notes
Policy statements		
	1. Find and review all of your organization's policy statements to ensure they are being observed and that they meet current laws.	
	2. For areas where policies have not been created, meet with the Board to discuss steps to put new policies in place.	
Government filings		
	1. Ensure the activities of the most recent completed fiscal year have been reported.	
	2. Move one complete set of filings off-site, in case of theft or fire loss of these documents from the office.	
	3. If you are federally incorporated, determine how transition to the Canada Not-for-profit Corporations Act affects your organization and take appropriate action to maintain status.	
	4. If your organization operates and/or engages in fundraising outside of British Columbia, ensure all proper extra-provincial registrations have been undertaken and reporting has been maintained.	
	5. If your organization is a charity, ensure you have filed an annual Registered Charity Information Return.	
Charitable registration		
	1. Review the initial corporate organization of the charity to ensure it was properly done.	
	2. Review all external marketing, outreach and fundraising materials to ensure your charitable status number is included on these documents.	
	3. Ensure that the charity has filed all required information with the CRA.	

Applies to us?	Recommended Action	Who is responsible? & other notes
Access to records		
	1. Check the governing statute to make sure you know which records members and Directors are entitled to inspect, when they may inspect them, and what fees, if any, may be charged for copies.	
	2. If necessary, amend your bylaws to make sure that access to records is consistent with privacy laws.	
Contractual records		
	1. Ensure that responsibility for contracts is clearly assigned.	
	2. Routinely review the relationships and obligations in all contracts, to ensure they are being followed.	
	3. Ensure that staff are aware of, and follow, Board rules related to when they are and are not allowed to sign contracts. Too commonly, the total dollar value (or potential exposure to the not-for-profit) is not considered when staff sign a contract for the lease of premises or equipment, or a contract for employment.	

Applies to us?	Recommended Action	Who is responsible? & other notes
Unanimous member agreements		
	1. If your organization has such an agreement, make sure your Board and members all understand its terms and implications.	
	2. If necessary, amend your bylaws to make sure that access to records is consistent with privacy laws.	
Duties of Directors – Board management		
	1. Gather all of the following documents and keep copies together in one place for the Board to easily access. Provide a copy of these documents to each new Board member. a. Board minutes from the previous two years b. Financial statements from the previous two years c. Copies of program and service evaluations from the previous two years (this could be in the form of reports to major funders and government contractors) d. Annual Reports for the previous two years e. Auditor's Reports for the previous two years f. A copy of the Constitution and Bylaws (or equivalent) g. A copy of all policies in place h. A copy of the organization's current strategic plan and goals i. An organization chart j. Summaries of all programs/services k. A list of key staff and their positions l. A job description for each Board position	