VERSION 1.0: MARCH 2018

RMHC Financial Management Standards and Guidelines

RMHC®

ACKNOWLEDGEMENTS

This document is intended for the use of local Chapters within the Ronald McDonald House Charities (RMHC) global system as they continue their quest to be the models of good stewardship for charities worldwide. During its development, valuable input was received from many people and organizations, notably the RMHC Global Advisory Council and Finance Subcommittee, the RMHC Global Team, and many local Chapters.

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SECTION 1

Introduction: RMHC Financial Standards and Guidelines

"Our vision is that the RMHC System has consistent and robust financial management infrastructure and reporting to help ensure long-term financial sustainability and delivery of our mission."

THE PRIMARY PURPOSE OF THIS RESOURCE IS TO OUTLINE REQUIRED

RMHC Financial Management Standards and present related best practice guidelines to support Chapters in the area of financial management. An overview of the Standards can be found in Section 2 of this resource. All Chapters worldwide are required to ensure operational alignment with these Standards and implement the guidelines to the full extent permitted by the laws and regulations of its own country or region.

Financial management in the nonprofit sector has become increasingly sophisticated and complex. Not only must Chapters take greater charge of their financial well-being to deliver mission, but they must also understand relevant trends, forecast future financial needs, navigate economic instability, and manage new risks and challenges.

Evidence has shown there are many common characteristics shared by financially healthy Chapters; some of which include the following:

- The board and Chapter management hold themselves responsible for long-term financial sustainability.
- Board members understand their roles and responsibilities in financial matters.
- A realistic and well-considered budget is prepared annually and approved by the board.
- Budgets are prepared in tandem with planning for programs and operating needs.
- Consistent, accurate, and timely financial reports are prepared and analyzed by qualified individuals.
- Financial policies are in place that establish, or have specific plans to establish, an operating reserve to finance cash shortfalls and a capital reserve to support capital maintenance and program growth.
- Management and the board monitor financial results as compared to the budget and modify activities in response to variances when necessary.
- Management is committed to compliance with all required laws, regulations and funding agreements.
- Management realistically plans and monitors cash flow to be able to meet obligations.
- There are appropriate policies and procedures in place that are monitored and regularly updated.
- The board and management regularly review short-term and long-term plans and develop goals and strategies for the future.

Development of the RMHC Financial Management Standards and Guidelines Resource

This resource has been produced through a collaborative process involving the RMHC Global Advisory Council (GAC), GAC Finance Subcommittee and the RMHC Global team. In total, more than 100 individuals provided input across 60 Chapters in 20 countries and regions. The first step in the development of the resource was identification of the RMHC Guiding Principles for Financial Management, which can be found in Section 2. These set the foundation for the Standards and an overall framework for the project. Throughout the development process, thoughtful consideration has been given to its worldwide applicability and the varying levels of Chapter financial management expertise and resources.

This resource is part of a broader RMHC Global strategy relating to global financial consistency and the goal to be the best governed nonprofit in the world. This resource will be kept up-to-date ensuring tools and templates continue to evolve based on best practices. It is also part of an evolving framework of support, including relevant education, peer support and updated resources.

Anticipated short and long-term benefits as a result of implementing these Standards and Guidelines include:

- Global alignment with financial management principles and standards.
- Ability for Chapters to self-assess alignment to RMHC Financial Management Standards and develop a forward-looking plan.
- Access to relevant and up-to-date financial management guidance, tools and support.
- Ability for Chapters to benchmark and measure progress using consistent financial metrics.
- Ability to demonstrate to donors that the Charity maintains the highest form of fiscal responsibility and reporting practices.
- Effective and efficient use of resources.
- Improved risk management and local compliance.

Using this guide

RMHC Global understands that specific rules regarding good governance practices vary country by country, and even by local governing bodies (i.e., State, Province and City). Each Chapter must first meet the requirements of its own regulatory agencies. If your country's regulations or generally accepted accounting principles (GAAP) specifically prohibit your Chapter from implementing any aspect of this resource, your Chapter must contact the RMHC Global Financial Controller or your Chapter's RMHC Global Field Operations Team Leader to discuss.

The RMHC Financial Management Standards and Guidelines is a practical and interactive resource. Each section may be relevant to different audiences in different ways. The following matrix illustrates each section of the resource and who should at minimum review each section:

		Board Chair/ Treasurer	*Board Members*	*Organizational Leader*	*CFO/Finance Manager*	*Book Keeper*	*Program Staff*
SECTION 1:	Introduction	•	•	•	•	•	•
SECTION 2:	RMHC Financial Management Guiding Principles & Standards Overview	•	•	•	•	•	•
SECTION 3:	RMHC Financial Management Self-Assessment Tool			•	•		
SECTION 4:	Quick Guide: Financial Management Standards			•	•		
SECTION 5:	Foundational Areas of Focus:						
	1 Board Financial Oversight	•	•	•	•		
	2 Risk Management	•	•	•	•		
	3 Financial Planning and Budgeting	•		•	•		
	4 Financial Accounting, Reporting and Metrics			•	•	•	
	5 Financial Policies and Procedures			•	•	•	
	6 Financial Literacy			•	•	•	•
	7 Finance and Fundraising			•	•	•	•
SECTION 6:	Accounting and Financial Polices & Procedures Manual Template			•	•		

Commonly used terms

- Ronald McDonald House Charities and Ronald McDonald House Chapters are referred to as "Chapter" throughout.
- The term "board" or "board of directors" is used to refer to the governing body of the Chapter. As outlined in the RMHC Governance Guide, some Chapters will call this group their executive board, governing board, board of trustees, or some other term.
- There are a number of icons used throughout the resource. Please refer to the following key:

Throughout the Guide, these icons highlight important information, reference other RMHC guidebooks, and provide links to additional resources available to download.

Logon to www.rmhcradar.org to access RMHC hyperlinks.


Activity


For more information *(hyperlink)*


Hot tips


Quick reference


Tools and templates to download *(hyperlink)*

To ensure you have the most up-to-date information as it relates to this resource, please join the Financial Management Community in **RADAR**.

SECTION 2

RMHC Financial Management Guiding Principles and Standards Overview

RMHC GUIDING PRINCIPLES FOR FINANCIAL MANAGEMENT

Financial Stewardship

We take the utmost care of the financial resources we are entrusted with by proactively managing financial risk and administering finances effectively and efficiently to ensure overall financial health and long-term sustainability.

Integrity

We uphold the public's trust through a culture of operating with honesty, transparency and ethical financial management practices.

Compliance

We respect and comply with local generally accepted accounting principles (GAAP) and financial regulatory requirements in addition to RMHC Financial Management Standards and Guidelines to ensure we operate and deliver our mission with the highest standards globally.

Accountability and Transparency

We operate in an open and honest manner. We are committed to accurately reporting on how our financial resources are used and the impact they have, ensuring information is readily available to all stakeholders.

Consistent, Current and Relevant

We maintain a culture of continuous improvement to ensure our financial management and reporting framework is globally consistent and up to date.

Financial Data Protection

We protect stakeholder financial data by only collecting necessary information and using secure systems and processes.

RMHC FINANCIAL MANAGEMENT STANDARDS

FOUNDATIONAL AREA OF FOCUS **1**

Board Financial Oversight

STANDARDS

1.1 The board ensures the Chapter complies with all relevant (local, national and international) laws and any other requirements relating to the operation of a nonprofit organization.

1.2 The board achieves its fiduciary responsibilities without receiving compensation or payment.

1.3 The board finance committee supports Chapter management with the implementation and monitoring of the RMHC Financial Management Standards and Guidelines.

1.4 There is an audit and/or a finance committee in place that reports directly to the board and is responsible for the engagement of an external audit firm.

1.5 The board approves an annual external audit upon the recommendation of the audit/finance committee and oversees the implementation of any resulting action(s) required.

1.6 The board ensures there is a long-term financial plan in place to support the Chapter's strategic objectives and its overall financial health and sustainability.

1.7 The board finance committee reviews and updates the board on the financial activities of the Chapter on a regular basis to ensure actual financial performance is aligned with the board-approved operating budget.

FOUNDATIONAL AREA OF FOCUS **2**

Risk Management

STANDARDS

2.1 There is an ongoing process in place that includes board representatives and Chapter staff assessing and managing risks relating to and/or impacting Chapter finances.

2.2 The Chapter complies with its own financial-related policies and procedures.

2.3 There are internal controls in place (relevant to the size and scale of the Chapter) to prevent, detect and respond to fraud and errors.

2.4 In addition to the insurance coverage requirements outlined in the Chapter's license agreement with McDonald's Corporation, there is adequate insurance coverage for other items relevant to the Chapter's activities.

FOUNDATIONAL AREA OF FOCUS **3**

Financial Planning and Budgeting

STANDARDS

3.1 The long-term financial planning process involves relevant Chapter stakeholders to ensure there is a collective approach and shared responsibility in achieving the overall financial health and sustainability of the Chapter.

3.2 There is an annual budget process that produces board-approved operating and capital budgets developed from the Chapter's long-term financial plan.

3.3 There is a cash flow projection developed from the budget, at minimum on an annual basis, to ensure the Chapter can meet its financial obligations.

3.4 When establishing a new program or undergoing a capital expansion, the Chapter meets the following requirements:

1. Submission of a balanced operating budget as outlined in the RMHC Financial Modeling Tool.
2. Demonstration of 80% of capital funds raised before RMHC Global approval for the construction phase of a new or expansion of a Ronald McDonald House.
3. Demonstration of 50% of capital funds raised before RMHC Global approval for the construction phase of a new Ronald McDonald Family Room.
4. Demonstration of funds raised equal to three years' operating budget before RMHC Global approval for the manufacturing phase of a new Ronald McDonald Care Mobile.

FOUNDATIONAL AREA OF FOCUS **4**

Financial Accounting, Reporting and Metrics

STANDARDS

4.1 There is a system in place that tracks and produces accurate and timely financial data to facilitate informed management decisions and meet internal and external reporting requirements.

4.2 There is compliance with the local country's generally accepted accounting principles (GAAP) and all other financial requirements as outlined in the Chapter's license agreement with McDonald's Corporation.

4.3 Annual board-approved, audited financial statements, including a Statement of Functional Expenses, are completed and submitted to RMHC Global through RADAЯ annually, no later than 8.5 months after the calendar year-end (September 15).

4.4 The Chapter is in compliance with its reporting obligations to government agencies (local, state, province and national) and with other organizations where there is a contractual agreement requiring Chapter financial information.

4.5 Annual RMHC financial metrics are calculated from the audited financial statements and submitted to RMHC Global through RADAЯ no later than 8.5 months after the end of calendar year (September 15).

FOUNDATIONAL AREA OF FOCUS **5**

Financial Policies and Procedures

STANDARDS

5.1 The Chapter has documented, board-approved financial policies and procedures that at minimum include policies and procedures on:

1. Accounting
2. Cash management
3. Conflict of interest
4. Debt and borrowing
5. Records management
6. Financial data protection and privacy
7. Gift acceptance
8. Investments
9. Risk management
10. Purchasing and procurement
11. Reserves
12. Travel and expense reimbursement
13. Whistleblower

5.2 The Chapter enables internal compliance with its financial policies and procedures by providing relevant ongoing training and support to its board members, staff, and volunteers.

FOUNDATIONAL AREA OF FOCUS **6**

Financial Literacy

STANDARDS

6.1 All current and future employees, volunteers and board members have the essential financial knowledge relevant to their role, including the necessary experience and skills to successfully carry out their responsibilities.

6.2 There are succession plans in place for employees with Chapter financial leadership responsibilities and the role of the Board Treasurer.

FOUNDATIONAL AREA OF FOCUS **7**

Finance and Fundraising

STANDARDS

7.1 There is compliance with all legislation relating to fundraising activities, including registering in every state where required by local laws.

7.2 Fundraising practices are consistent with RMHC Guiding Principles for Financial Management and local ethical fundraising guidelines.

7.3 There are practices in place to ensure donor restrictions on use of funds are honored, including the maintenance of donor documentation requesting restrictions.

7.4 Staff responsible for Chapter finance and fundraising/development regularly review fundraising activities based on analysis of return on investment (ROI) and cost to raise a dollar to ensure the optimization of fundraising strategies and activities.

SECTION 3

RMHC Financial Management Self-Assessment Tool

THE PURPOSE OF THE FINANCIAL MANAGEMENT SELF-ASSESSMENT TOOL *(Tool)*

is to help Chapters identify how aligned their current practices are with the 28 RMHC Financial Management Standards. The Tool consists of 52 questions based on characteristics of financially healthy nonprofits and global best practices across three areas:

- Financial Governance
- Financial Management
- Financial Operations

The Tool should be completed by the Chapter's Organizational Leader or Finance lead; the person completing it must be aware of the Chapter's finance-related practices and/or be able to consult with relevant individuals, as necessary. The Tool is Excel-based and will take approximately 15–30 minutes to complete. There are four answer options for each question as illustrated below: Don't Know, No, Partially, and Yes.

FINANCIAL GOVERNANCE	Don't Know	No	Partially	Yes
1. Our Chapter complies with all relevant nonprofit laws and regulations.	x			
2. No one on our Board receives financial compensation for their service.				x
3. Our Board is aware of and supports the RMHC Financial Management Standards and Guidelines.			x	

Instructions

1 Answer all questions found in each of the three tabs (Financial Governance, Financial Management, and Financial Operations) by inserting an "X" in each row under the most relevant answer.

2 Once all questions are answered, a result in the form of a percentage (%) for Financial Governance, Financial Management and Financial Operations will be automatically generated. These results can be found in the "Results" tab. ***Note:*** *The higher the percentage, the more aligned the Chapter is with the RMHC Financial Management Standards related to that area.*

3 Review your results to prioritize which area to start within the RMHC Financial Management Standards and Guidelines. Begin with the area with the lowest percentage, and continue until you get to the area with the highest percentage.

4 The three areas in the results chart are mapped to the seven Foundational Areas of Focus, which are described in Section 5 of this guide.

- Financial Governance relates to Foundational Areas of Focus 1 and 2.
- Financial Management relates to Foundational Areas of Focus 3 and 4.
- Financial Operations relates to Foundational Areas of Focus 5, 6 and 7.

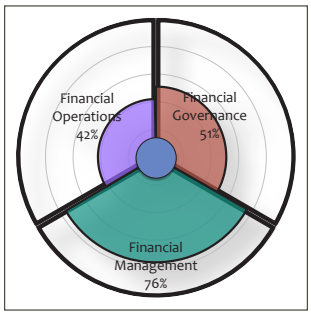


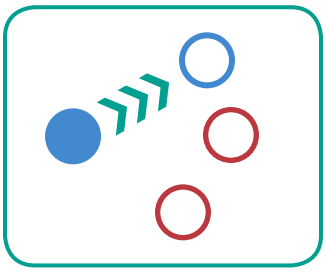
Chart in the Tool's results tab

If your Chapter's score was lowest in the area of Financial Governance, you should start with Foundational Areas of Focus 1 and 2. If your score was lowest in the area of Financial Management, you should start with Foundational Areas of Focus 3 and 4. If your score was lowest in the area of Financial Operations, you should start with Foundational Areas of Focus 5, 6 and 7.

Next steps

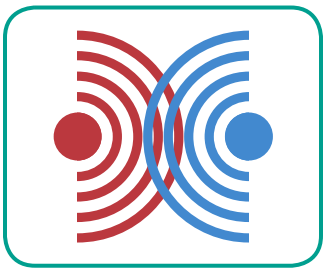
1 Develop a plan of action

Once you have reviewed all seven Foundational Areas of Focus in the order that is relevant for your Chapter, develop a plan of action to address your Chapter's areas of opportunity. It is essential to consult with the relevant people at the appropriate times throughout the development of the plan (e.g., Chapter Management and the Board). Refer to Section 4 "Quick Guide: RMHC Financial Management Standards" for information on required compliance timelines and incorporate this into your planning.



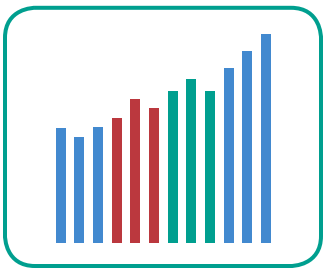
2 Communicate your plan

Share your results and action plan with your Chapter's Management Team and Board.



3 Measure your effectiveness

Establish a timeframe to review the effectiveness of your action plan (e.g., 12 months), complete the self-assessment again and adjust your action plan if needed.



RMHC Financial Management Self-Assessment Tool

SECTION 4

Quick Guide: RMHC Financial Management Standards

THIS QUICK GUIDE PROVIDES GUIDANCE ON ACTIONS YOUR CHAPTER can take to ensure alignment with each of the RMHC Financial Management Standards.

It is likely most Chapters will have many of the RMHC Financial Management Standards in place and in some instances, it is clear what needs to be done to ensure alignment. However, in some cases it may not be so apparent. This section is a tool to help Chapters identify the actions they can take to either check if the Standard is in place or to implement the Standard.

Before reviewing this section, it is recommended you complete the RMHC Financial Management Self-Assessment found in Section 3. Once completing the Self-Assessment and you are in the process of developing an action plan, this section will serve as a practical guide throughout your planning process.

Within this section you will find a one-page overview for each Standard, including the following:

- Priority Level
- Initial Review Recommendations
- Hot Tips for Implementation from Subject Matter Experts (SMEs) including your colleagues around the globe, the Global Advisory Council and the Finance Subcommittee.
- A list of success indicators to illustrate what success looks like in practice.
- Links to related tools and templates as well as where to go for more information.

Priority Level key	
A	3–6 months
B	6–12 months
C	12–18 months

RMHC Financial Management Standards Quick Guide

SECTION 5

Foundational Areas of Focus

Standards, Guidelines and Tools

RMHC FINANCIAL MANAGEMENT STANDARDS AND GUIDELINES HAVE BEEN ORGANIZED INTO SEVEN FOUNDATIONAL AREAS OF FOCUS:

1 **Board Financial Oversight**

2 **Risk Management**

3 **Financial Planning and Budgeting**

4 **Financial Accounting, Reporting and Metrics**

5 **Financial Policies and Procedures**

6 **Financial Literacy**

7 **Finance and Fundraising**

Each **Foundational Area of Focus** outlines related RMHC Financial Management Standards and a set of Guidelines to support their implementation. In total there are 28 Standards across the seven Foundational Areas of Focus.

The *RMHC Financial Management Standards and Guidelines* has been developed as a practical resource, therefore it is best used as it applies to your Chapter's needs. To help develop a sense of what areas may be of more significance to your Chapter, it is recommended you first complete the RMHC Financial Management **Self-Assessment Tool**.

After you complete the self-assessment, your results will indicate the area(s) where there may be opportunities for initial focus. It is important to review all seven Foundational Areas of Focus, in the order that is most relevant for your Chapter based on the results of your self-assessment.

The guidelines have been written from a beginner's perspective, however it also applies to those with more expert knowledge, particularly through the use of the following icons:

Activity **For more information** **Hot tips** **Quick reference** **Tools and templates to download**

To ensure you have the most up-to-date information as it relates to this resource, please join the Financial Management Community in **RADAR**.

Foundational Area of Focus 1:
BOARD FINANCIAL OVERSIGHT

Standard

1.1

The board ensures the Chapter complies with all relevant (local, national and international) laws and any other requirements relating to the operation of a nonprofit organization.

A

Priority Level

INITIAL REVIEW RECOMMENDATIONS

- *Allocate at least 2 days of internal research to check local, national and international laws and requirements.*

  And/or

- Engage an external expert to review your current practices.

HOT TIPS FOR IMPLEMENTATION

- *It can be difficult to know how and where to start; an external legal review can provide reassurance, direction and answers. An external review can be a useful approach for Chapters that have limited internal human resources to perform this task.*
- *Develop a list of compliance requirements, including any relevant due dates, and place them in an organizational calendar. Review the list regularly, at least quarterly, to keep it up to date.*

WHAT DOES SUCCESS LOOK LIKE?

1. *The Organizational Leader, Finance Staff and Board Treasurer each have clear roles and responsibilities regarding keeping up to date on relevant laws and requirements.*
2. *There is a culture of accountability and transparency.*
3. *There is a robust records management system in place.*
4. *The Board is aware of relevant requirements related to their role.*

FOR MORE INFORMATION AND RELATED TOOLS & TEMPLATES

- BoardSource: Must-Have Board Documents (To access this resource Click Here for free membership)
- Risk Management Framework Template
- Conflict of Interest Example Template
- RMHC Financial Management Standards & Guidelines: Foundational Area of Focus No. 1
- RMHC Governance Guide
- Helping Boards Be Responsible Fiscal Stewards, Jenkins J, 2010, Nonprofit Finance Fund, Philanthropy Journal
- Beyond Financial Oversight: Expanding the Board's Role in the Pursuit of Sustainability , Bell. J, 2011, Nonprofit Quarterly

Foundational Area of Focus 1:
BOARD FINANCIAL OVERSIGHT

Standard 1.2 ***The board achieves its fiduciary responsibilities without receiving compensation or payment.***

A

Priority Level

INITIAL REVIEW RECOMMENDATIONS

- *If your Chapter is providing payment to your board members for their service – contact your Field Operations Team Leader at RMHC Global for guidance and support on next steps.*

HOT TIPS FOR IMPLEMENTATION

- *It is good practice to include a statement in your by-laws, for example: "the directors/trustees shall receive no compensation for their services, but shall be entitled to be reimbursed for all reasonable expenses incurred in the performance of their duties".*
- *Include this statement in any orientation materials as part of the board member onboarding process.*

WHAT DOES SUCCESS LOOK LIKE?

1. *Board members perform their duties without receiving compensation.*
2. *There is a process for providing reimbursement for approved out- of- pocket expenses incurred by board members.*

FOR MORE INFORMATION AND RELATED TOOLS & TEMPLATES

- BoardSource: Fiduciary Responsibilities
- RMHC Financial Management Standards & Guidelines: Foundational Area of Focus No. 1
- RMHC Governance Guide

Foundational Area of Focus 1:
BOARD FINANCIAL OVERSIGHT

Standard 1.3 ***The board finance committee supports Chapter management with the implementation and monitoring of the RMHC Financial Management Standards and Guidelines.***

A

Priority Level

INITIAL REVIEW RECOMMENDATIONS

- *The Organizational Leader and Board Treasurer meet to discuss the Chapter's approach and board engagement for implementation and monitoring.*
- *Send your finance committee members Sections 1, 2 and Foundational Area of Focus No. 1 for their review.*

HOT TIPS FOR IMPLEMENTATION

- *Provide the finance committee with an overview of one to two Foundational Area of Focus at each meeting over a year period; discuss and identify critical areas to be addressed.*
- *The Organizational Leader and Board Treasurer work together in completing the RMHC Financial Management Self-Assessment tool.*

WHAT DOES SUCCESS LOOK LIKE?

1. *The Finance Committee is aware of the RMHC Financial Management Standards, status of the Chapter's compliance, and plans to ensure alignment with the Standards.*

FOR MORE INFORMATION AND RELATED TOOLS & TEMPLATES

- RMHC Financial Management Standards & Guidelines: Section 3 - *RMHC Financial Management Self-Assessment Tool*

- RMHC Financial Management Standards & Guidelines:
  - Section 1: Introduction
  - Section 2: RMHC Financial Management Guiding Principles and Standards
  - Section 5: Foundational Area of Focus No. 1

Foundational Area of Focus 1:
BOARD FINANCIAL OVERSIGHT

Standard 1.4 ***There is an audit and/or a finance committee in place that reports directly to the board and is responsible for the engagement of an external audit firm.***

C

Priority Level

INITIAL REVIEW RECOMMENDATIONS

- *Assess your current committee structures and auditor selection and evaluation practices by reviewing current procedures.*
- *If a finance and/or audit Committee needs to be established, dedicate a minimum of 1 day to develop a plan of action.*

HOT TIPS FOR IMPLEMENTATION

- *When selecting an audit firm, it is essential that the firm has demonstrated expertise in nonprofit accounting reporting, and tax requirements.*

WHAT DOES SUCCESS LOOK LIKE?

1. *There is an audit and/or a finance committee in place.*
2. *The audit and/or finance committee manages the process to engage auditors.*
3. *The audit and/or finance committee establishes and maintains the Chapter's audit request for proposal template.*
4. *The audit and/or finance committee makes a motion to engage a specified auditor.*
5. *An independent audit firm is engaged, and the firm's performance is evaluated annually.*

FOR MORE INFORMATION AND RELATED TOOLS & TEMPLATES

- Audit Committee Self-Assessment
- Nonprofit Auditor Selection Guide & Request for More Information Template
- RMHC Accounting Financial Policies & Procedures Manual (Template): Audit Committee Charter Example
- Managing an Audit: A Step-by-Step Approach
- RMHC Financial Management Standards & Guidelines: Foundational Area of Focus No. 1

Foundational Area of Focus 1:
BOARD FINANCIAL OVERSIGHT

Standard 1.5

The board approves an annual external audit upon the recommendation of the audit/finance committee and oversees the implementation of any resulting action(s) required.

A

Priority Level

INITIAL REVIEW RECOMMENDATIONS

- *Should this activity not be in practice, update your Board Charter to include this requirement.*

HOT TIPS FOR IMPLEMENTATION

- *Include the following as an annual standing board agenda item: "Review the audit results and any post-audit action(s) required".*
- *If the audit results include recommendations for changes in policies or practices, the finance committee should develop and oversee a plan to address deficiencies, ensuring adequate financial and human resources are engaged for success.*

WHAT DOES SUCCESS LOOK LIKE?

1. *The audit/finance committee meets annually with auditors (without management).*
2. *The audit/finance committee reviews and recommends approval of audited financial statements to the board.*

FOR MORE INFORMATION AND RELATED TOOLS & TEMPLATES

- Managing an Audit: A Step-by-Step Approach
- RMHC Financial Management Standards & Guidelines: Foundational Area of Focus No. 1

Foundational Area of Focus 1:
BOARD FINANCIAL OVERSIGHT

Standard 1.6

The board ensures there is a long-term financial plan in place to support the Chapter's strategic objectives and its overall financial health and sustainability.

C

Priority Level

INITIAL REVIEW RECOMMENDATIONS

- *If there is no long-term financial plan in place or if it is not aligned to the Chapter's strategic objectives, utilize the RMHC Long-Term Modeling Tool included in the resource.*

HOT TIPS FOR IMPLEMENTATION

- *Strategic planning and long-term financial planning should work hand-in-hand and cover a 3 to 5 year time horizon.*
- *Consider developing a process timeline incorporating Chapter strategic planning, annual operational planning and budgeting.*

WHAT DOES SUCCESS LOOK LIKE?

1. *Each year (at minimum) the Board approves an operational plan (a one-year snapshot of the strategic plan) and the associated budget that ensures revenue and expenses reflect financial sustainability and are in line with Chapter financial goals.*

FOR MORE INFORMATION AND RELATED TOOLS & TEMPLATES

- RMHC Long -Term Financial Planning Tool
- RMHC Financial Management Standards & Guidelines: Foundational Area of Focus No. 1
- RMHC Financial Management Standards & Guidelines: Foundational Area of Focus No. 3
- RMHC Strategy Guide

Foundational Area of Focus 1:
BOARD FINANCIAL OVERSIGHT

Standard 1.7

The board finance committee reviews and updates the board on the financial activities of the Chapter on a regular basis to ensure actual financial performance is aligned with the board-approved operating budget.

A

Priority Level

INITIAL REVIEW RECOMMENDATIONS

- *Asses your current processes by reviewing related activities.*
- *Should new processes be required, the Organizational Leader and Board Treasurer should work together to develop a plan of action.*

HOT TIPS FOR IMPLEMENTATION

- *Presenting internal financial statements to the finance committee on a monthly or quarterly basis with commentary from the Board Treasurer & Chapter management helps highlight variances to the budget as well as anticipate any overages/shortfalls that need action.*

WHAT DOES SUCCESS LOOK LIKE?

1. *The finance committee and/or Chapter management ensures the Board is continuously up-to-date.*
2. *The Board is able to make informed decisions and changes to plans as necessary to maintain overall financial health and sustainability.*

FOR MORE INFORMATION AND RELATED TOOLS & TEMPLATES

- RMHC Decision Planning Tree Tool
- RMHC Financial Management Standards & Guidelines: Foundational Area of Focus No. 1
- RMHC Financial Management Standards & Guidelines: Foundational Area of Focus No. 4
- RMHC Governance Guide

Foundational Area of Focus 2:
RISK MANAGEMENT

Standard 2.1 ***There is an ongoing process in place that includes board representatives and Chapter staff assessing and managing risks relating to and/or impacting Chapter finances.***

C

Priority Level

INITIAL REVIEW RECOMMENDATIONS

- *Review you Chapter's Risk Management Plan and whether it includes financial-related risk. Should there by no plan in place, begin with designing a process and an action plan.*

HOT TIPS FOR IMPLEMENTATION

- *Each section of the Chapter's Risk Management Plan should be assessed for financial impact.*
- *Reviewing the plan each quarter will help to identify any changes or areas needing attention.*

WHAT DOES SUCCESS LOOK LIKE?

1. *There is a board-approved Chapter Risk Management Plan in place.*
2. *The development of the Chapter's Risk Management Plan includes relevant staff and board members to consider risks relating to Chapter finances.*
3. *The finance committee is aware and up to date on all aspects of potential financial risks and the required actions to mitigate those risks.*

FOR MORE INFORMATION AND RELATED TOOLS & TEMPLATES

- Risk Management Framework Template
- RMHC Financial Management Standards & Guidelines: Foundational Area of Focus No. 2
- BoardSource: Avoiding Financial Risk (To access this resource Click Here for free membership)

Foundational Area of Focus 2:
RISK MANAGEMENT

Standard 2.2 ***The Chapter complies with its own financial-related policies and procedures.***

A

Priority Level

INITIAL REVIEW RECOMMENDATIONS

- *Review the Chapter's Accounting and Financial Management Policies and Procedures manual and the process in place to ensure policies and procedures are up-to-date and operating in everyday practice.*

HOT TIPS FOR IMPLEMENTATION

- *Ensure board, staff and volunteers are adequately trained in financial management policies and procedures as part of their orientation.*
- *Create a compliance checklist to include internal as well as external requirements.*
- *Keep your Chapter's Accounting and Financial Management Policies and Procedures manual up-to-date by reviewing it at least annually.*

WHAT DOES SUCCESS LOOK LIKE?

1. *All board members, staff and volunteers are aware of finance-related policies and procedures that apply to their roles and responsibilities.*
2. *The Chapter's Accounting and Financial Management Policies & Procedures manual is easily accessible, regularly monitored and updated.*

FOR MORE INFORMATION AND RELATED TOOLS & TEMPLATES

- RMHC Accounting and Financial Policies & Procedures Manual Template
- RMHC Financial Management Standards & Guidelines: Foundational Area of Focus No. 2
- RMHC Financial Management Standards & Guidelines: Foundational Area of Focus No. 5

Foundational Area of Focus 2:
RISK MANAGEMENT

Standard 2.3 ***There are internal controls in place (relevant to the size and scale of the Chapter) to prevent, detect and respond to fraud and errors.***

A

Priority Level

INITIAL REVIEW RECOMMENDATIONS

- *Review the Chapter's current internal controls.*
- *Consider engagement of external audit firm to conduct an internal control review for the Chapter.*

HOT TIPS FOR IMPLEMENTATION

- *Working with an external audit firm to establish minimum internal controls can help ensure the controls comply with audit requirements.*
- *For smaller Chapters, consider reach out to other Chapters in RMHC system to share internal control processes.*

WHAT DOES SUCCESS LOOK LIKE?

1. *There is a robust set of internal controls in place including segregation of duties to help ensure prevention of fraudulent activities. For smaller Chapters, the Board Treasurer may need to be involved to ensure appropriate segregation of duties.*

FOR MORE INFORMATION AND RELATED TOOLS & TEMPLATES

- RMHC Accounting and Financial Policies & Procedures Manual Template
- RMHC Financial Management Standards & Guidelines: Foundational Area of Focus No. 2
- RMHC Financial Management Standards & Guidelines: Foundational Area of Focus No. 5

Foundational Area of Focus 2:
RISK MANAGEMENT

Standard 2.4 ***In addition to the insurance coverage requirements outlined in the Chapter's license agreement with McDonald's Corporation, there is adequate insurance coverage for other items relevant to the Chapter's activities.***

C

Priority Level

INITIAL REVIEW RECOMMENDATIONS

- *Review the Chapter's current license agreement.*
- *Review the activities of the Chapter in line with the license requirements and current insurance coverage. Should there be a gap, seek recommendations from your insurance provider.*
- *You may wish to consider an external review of all insurance coverage and seek recommendations from an insurance agent.*

HOT TIPS FOR IMPLEMENTATION

- *Request insurer to provide an annual summary of coverages for finance committee review and discussion.*
- *Develop a Request for Proposal for insurance coverage.*
- *Work with an insurance agent to review risks associated with the Chapter's activities, including events, overnight staff etc.*

WHAT DOES SUCCESS LOOK LIKE?

1. *There is adequate insurance in place related to the Chapter's current and planned activities.*
2. *The Finance Committee is actively engaged in the process of ensuring adequate coverage.*
3. *The Board is aware of the Chapter's requirements as outlined in the Chapter's license agreement with McDonald's Corporation.*

FOR MORE INFORMATION AND RELATED TOOLS & TEMPLATES

- BoardSource: Insurance and Risk Management (To access this resource Click Here for free membership)
- RMHC Financial Management Standards & Guidelines: Foundational Area of Focus No. 2

Foundational Area of Focus 3:
FINANCIAL PLANNING AND BUDGETING

Standard 3.1 ***The long-term financial planning process involves relevant Chapter stakeholders to ensure there is a collective approach and shared responsibility in achieving the overall financial health and sustainability of the Chapter.***

C

Priority Level

INITIAL REVIEW RECOMMENDATIONS

- *Identify your Chapter's internal stakeholders. Consider all of the Chapter's activities and who can have an impact or be impacted by them.*
- *Develop a process that engages your Chapter's stakeholders at the relevant times throughout your long-term financial planning process.*
- *Document and communicate the planning process to your stakeholders.*

HOT TIPS FOR IMPLEMENTATION

- *Long-term financial planning occurs in tandem with the strategic planning process; ensuring input and buy-in from a variety of stakeholders is critical to its success.*

WHAT DOES SUCCESS LOOK LIKE?

1. *There is a shared vision of financial goals for the Chapter that are developed through extensive consultation with stakeholders.*

FOR MORE INFORMATION AND RELATED TOOLS & TEMPLATES

- RMHC Long -Term Financial Planning Tool
- RMHC Decision Planning Tree Tool
- RMHC Financial Management Standards & Guidelines: Foundational Area of Focus No. 3
- RMHC Strategy Guide

Foundational Area of Focus 3:
FINANCIAL PLANNING AND BUDGETING

Standard 3.2 ***There is an annual budget process that produces board-approved operating and capital budgets developed from the Chapter's long-term financial plan.***

A

Priority Level

INITIAL REVIEW RECOMMENDATIONS

- *Review your current annual budget process; does it include the Chapter's relevant stakeholders and produce board-approved operating and capital budgets derived from the long-term financial plan?*
- *If changes to the process are required, the Organizational Leader and Board Treasurer should work together to develop a plan of action.*

HOT TIPS FOR IMPLEMENTATION

- *Budgets should set achievable targets for revenues and expenses, derived from the Chapter's long-term financial plan.*
- *It is imperative as part of the approval process that the board is equipped with the relevant information to help make robust decisions.*

WHAT DOES SUCCESS LOOK LIKE?

1. *Board-approved operating and capital budgets are in place.*
2. *Budgets are directly linked to the Chapters long-term financial plan.*
3. *Broad discussion and understanding of an approved budget enables participation in monitoring and achieving goals.*

FOR MORE INFORMATION AND RELATED TOOLS & TEMPLATES

- RMHC Long -Term Financial Planning Tool
- 10 Step Annual Budgeting Checklist
- Board Source: Welcome to Your Financial Statements: A Primer for Nonprofit Board Members (PDF) (To access this resource Click Here for free membership)
- RMHC Decision Planning Tree Tool
- RMHC Financial Management Standards & Guidelines: Foundational Area of Focus No. 3

Foundational Area of Focus 3:
FINANCIAL PLANNING AND BUDGETING

Standard 3.3

There is a cash-flow projection developed from the budget, at minimum on an annual basis, to ensure the Chapter can meet its financial obligations.

C

Priority Level

INITIAL REVIEW RECOMMENDATIONS

- *Review your Chapter's cash-flow projection process. If there is not a process in place, utilize the cash flow projection tool included in the resource to create a cash-flow projection for the year.*

HOT TIPS FOR IMPLEMENTATION

- *Develop timelines of cash inflows and outflows for both the operating and capital budgets to help with the projection process.*
- *Project cash flow by month to help ensure there is sufficient cash to meet financial obligations throughout the year.*

WHAT DOES SUCCESS LOOK LIKE?

1. *The Chapter has adequate cash to meet financial commitments throughout the year.*

FOR MORE INFORMATION AND RELATED TOOLS & TEMPLATES

- Cash Flow Projection Tool
- RMHC Financial Management Standards & Guidelines: Foundational Area of Focus No. 3

Foundational Area of Focus 3:
FINANCIAL PLANNING AND BUDGETING

Standard 3.4

When establishing a new program or undergoing a capital expansion, the Chapter meets the following requirements:

a) *Submission of a balanced operating budget as outlined in the RMHC Financial Modeling Tool.*

b) *Demonstration of 80% of capital funds raised before RMHC Global approval for the construction phase of a new or expansion of a Ronald McDonald House.*

c) *Demonstration of 50% of capital funds raised before RMHC Global approval for the construction phase of a new Ronald McDonald Family Room.*

d) *Demonstration of funds raised equal to three years' operating budget before RMHC Global approval for the manufacturing phase of a new Ronald McDonald Care Mobile.*

A

Priority Level

INITIAL REVIEW RECOMMENDATIONS

If establishing a new program or capital expansion:

- *Review the relevant RMHC Program Development and Approval Process documents.*
- *Reach out to your RMHC Global Field Operations Team Leader to seek support and guidance.*

HOT TIPS FOR IMPLEMENTATION

- *Working with your RMHC Global Field Operations Team Leader is essential to ensuring you understand the requirements and licensing process.*
- *Consult with other RMHC Chapters to gain additional insights on the process.*

WHAT DOES SUCCESS LOOK LIKE?

1. *The Chapter meets requirements and achieves approval and license to operate the new or expanded program.*

FOR MORE INFORMATION AND RELATED TOOLS & TEMPLATES

- RMHC Program Development Approval Process Documents
- RMHC Financial Modeling Tool for Capital Expansion
- RMHC Financial Management Standards & Guidelines: Foundational Area of Focus No. 3

Foundational Area of Focus 4:
FINANCIAL ACCOUNTING, REPORTING AND METRICS

Standard 4.1

There is a system in place that tracks and produces accurate and timely financial data to facilitate informed management decisions and meet internal and external reporting requirements.

A

Priority Level

INITIAL REVIEW RECOMMENDATIONS

- *Review your current processes to assess if requirements are met.*
- *Consider an additional review with an attorney, independent auditor and/or tax consultant to better understand possible solutions to meet your requirements.*

HOT TIPS FOR IMPLEMENTATION

- *When looking or a financial system to meet your Chapter's needs, reaching out to similar size Chapters for recommendations may be useful.*

WHAT DOES SUCCESS LOOK LIKE?

- *The Finance Committee and Board are up to date on the Chapter's financial position and have access to relevant financial data.*
- *All internal and external reporting requirements are being met.*

FOR MORE INFORMATION AND RELATED TOOLS & TEMPLATES

- BoardSource: 10 Common Benefits of Dashboard Reporting (To access this resource Click Here for free membership)
- RMHC Decision Planning Tree Tool
- RMHC Financial Management Standards & Guidelines: Foundational Area of Focus No. 4

Foundational Area of Focus 4:
FINANCIAL ACCOUNTING, REPORTING AND METRICS

Standard 4.2 ***There is compliance with the local country's generally accepted accounting principles (GAAP) and all other financial requirements as outlined in the Chapter's license agreement with McDonald's Corporation.***

A

Priority Level

INITIAL REVIEW RECOMMENDATIONS

- *Review nonprofit GAAP requirements for your country with your external auditors and compare to current policies and procedures. If changes are required develop a plan of action with relevant internal stakeholders and your external auditors.*
- *Review your Chapters license agreement with McDonald's Corporation and ensure financial requirements are met.*

HOT TIPS FOR IMPLEMENTATION

- *Inquire whether your audit firm's work is "peer-reviewed" or reviewed by another audit firm to ensure it is in compliance with GAAP. If not, consider recommending that your Chapter's audit/finance committee utilize a different audit firm that engages in this practice as it helps ensure the quality of the service you are receiving.*
- *Consider connecting with other Chapters in your country or region to seek support to understand local accounting standards.*
- *For any clarification, guidance and support contact your RMHC Field Operations Team Leader.*
- *For US and Canadian Chapters - adopt the current US or Canadian RMHC Standard Financial Statement template as a reassurance measure when working with your external auditor.*

WHAT DOES SUCCESS LOOK LIKE?

1. *A "clean" audit opinion is received annually resulting from the independent external audit.*
2. *All financial requirements in Chapter's license agreement with McDonald's Corporation are met.*

FOR MORE INFORMATION AND RELATED TOOLS & TEMPLATES

- RMHC Financial Management Standards & Guidelines: Foundational Area of Focus No. 1
- RMHC Financial Management Standards & Guidelines: Foundational Area of Focus No. 4

Foundational Area of Focus 4:
FINANCIAL ACCOUNTING, REPORTING AND METRICS

Standard

4.3

Annual board-approved, audited financial statements, including a Statement of Functional Expenses, are completed and submitted to RMHC Global through RADAR annually, no later than 8.5 months after the end of calendar year (September 15).

B

Priority Level

C

Priority Level**

INITIAL REVIEW RECOMMENDATIONS

- *Review current timelines and update as required to ensure your Chapter is able to meet the September 15 deadline.*
- *If you Chapter is not currently completing a Statement of Functional Expenses, review the related guidance, tool and template provided. The Organizational Leader and Finance Leader should work together to develop a process to capture the required information to complete the Statement of Functional Expenses.* *****The Statement of Functional Expenses is required to be included in your Chapter's 2019 audited financials.***

HOT TIPS FOR IMPLEMENTATION

- *Submission of audited financial statements in RADAR once they are completed should be added to the Chapter's compliance checklist.*
- *Ensure those involved in the audit process understand the timely and accurate submission facilitates sharing and consolidation of current information across the RMHC system globally.*

WHAT DOES SUCCESS LOOK LIKE?

1. *The Chapter submits its annual board-approved audit financial statements, including a Statement of Functional Expenses to RMHC Global no later than September 15 each year.*
2. *RMHC Global receives information from all Chapters globally in a timely manner annually and is able to produce accurate and relevant RMHC System financial data.*

FOR MORE INFORMATION AND RELATED TOOLS & TEMPLATES

- RMHC Statement of Functional Expense Guidance
- Statement of Functional Expense Tool
- Statement of Functional Expense Tool-INSTRUCTIONAL VIDEO
- RMHC Statement of Functional Expense Template
- RMHC Financial Management Standards & Guidelines: Foundational Area of Focus No. 4

Foundational Area of Focus 4:
FINANCIAL ACCOUNTING, REPORTING AND METRICS

Standard 4.4

The Chapter is in compliance with its reporting obligations to government agencies (local, state, provincial, and national) and with other organizations where there is a contractual agreement requiring Chapter financial information.

A

Priority Level

INITIAL REVIEW RECOMMENDATIONS

- *Review financial reporting requirements for government agencies and Chapter contractual agreements.*
- *Consider an outside legal review to confirm these reporting requirements are being met.*

HOT TIPS FOR IMPLEMENTATION

- *Develop a detailed compliance checklist including timelines for all reporting requirements.*
- *Integrate requirements into committee and staff functions as relevant.*

WHAT DOES SUCCESS LOOK LIKE?

1. *All reporting requirements are met, ensuring the Chapter's charitable status and reputation is not at risk.*
2. *The Chapter demonstrates accountability and transparency in line with RMHC core values.*

FOR MORE INFORMATION AND RELATED TOOLS & TEMPLATES

- Checklist for 990 compliance (USA)
- RMHC Financial Management Standards & Guidelines: Foundational Area of Focus No. 4

Foundational Area of Focus 4:
FINANCIAL ACCOUNTING, REPORTING AND METRICS

Standard 4.5 ***Annual RMHC financial metrics are calculated from the audited financial statements and submitted to RMHC Global through RADAЯ no later than 8.5 months after the end of calendar year (September 15).***

C

Priority Level**

INITIAL REVIEW RECOMMENDATIONS

- *Review the required RMHC financial metrics chart in Foundational Area of Focus 4.*
- *Share the metrics with the finance committee and evaluate whether the Chapter's financial metrics results currently meet the RMHC requirements included in the financial metrics chart.*

HOT TIPS FOR IMPLEMENTATION

3. *Completion of the RMHC Financial Metrics Report in RADAЯ once audited financial statements are completed should be added to the Chapter's annual compliance checklist and schedule of due dates.* *****The RMHC Financial Metrics Report will be required beginning with data from your Chapter's 2019 audited financials.***
4. *Chapters may want to calculate metrics quarterly (if relevant) as part of a board scorecard exercise.*

WHAT DOES SUCCESS LOOK LIKE?

5. *Chapter completes RMHC Financial Metrics Report in RADAЯ annually no later than September 15.*
6. *Chapter financial metrics results are in line with RMHC requirements outlined in Foundational Area of Focus 4.*

FOR MORE INFORMATION AND RELATED TOOLS & TEMPLATES

- RMHC Financial Metrics Report in RADAЯ
- RMHC Financial Metrics Definitions
- RMHC Financial Management Standards & Guidelines: Foundational Area of Focus No. 4

Foundational Area of Focus 5:
FINANCIAL POLICIES AND PROCEDURES

Standard 5.1

The Chapter has documented, board-approved financial policies and procedures that at minimum include policies and procedures on:

1 Accounting
2 Cash management
3 Conflict of interest
4 Debt and borrowing
5 Records management
6 Financial data protection and privacy
7 Gift acceptance
8 Investments
9 Purchasing and procurement
10 Reserves
11 Risk management
12 Travel and expense reimbursement
13 Whistleblower

B

Priority Level

INITIAL REVIEW RECOMMENDATIONS

- *Review the Chapter's current Accounting and Financial Management Policies and Procedures Manual and ensure it includes the required policies.*
- *If any new policies and procedures need to be developed, refer to the Accounting and Financial Management Policies and Procedures template provided for sample content.*

HOT TIPS FOR IMPLEMENTATION

- *Use the Financial Management Community in RADAЯ as a source of connecting with other Chapters across the system to share information.*
- *Sharing of Chapter policies across the system will help facilitate ongoing dialogue and strengthen resources available.*
- *If your full manual needs to be updated, consider customizing the Accounting and Financial Policies and Procedures Manual Template provided.*

WHAT DOES SUCCESS LOOK LIKE?

1. *The Chapter has a robust Financial Accounting Policies and Procedures Manual that meets local regulations and helps mitigate Chapter risks.*
2. *Financial functions run smoothly as governed by policies and procedures.*

FOR MORE INFORMATION AND RELATED TOOLS & TEMPLATES

- RMHC Accounting and Financial Policies & Procedures Manual Template
- BoardSource: Must-Have Board Documents
- RMHC Financial Management Standards & Guidelines: Foundational Area of Focus No. 5

Foundational Area of Focus 5:
FINANCIAL POLICIES AND PROCEDURES

Standard 5.2 ***The Chapter enables internal compliance with its financial policies and procedures by providing relevant ongoing training and support to its board members, staff, and volunteers.***

B

Priority Level

INITIAL REVIEW RECOMMENDATIONS

- *Review your current process for orientation, training and ongoing support for board members, staff and volunteers on Chapter financial management policies and procedures.*

HOT TIPS FOR IMPLEMENTATION

- *The Chapter's Risk Management Plan should include a process to ensure policies remain relevant and up-to-date.*
- *Ensuring your Chapter provides ongoing training and support to enable board members, staff and volunteers to function effectively in their roles is critical to fostering an operating environment that minimizes risks and reflects the Chapter's values.*

WHAT DOES SUCCESS LOOK LIKE?

1. *Chapter operations as they relate to financial matters are consistent with internal policies and procedures.*
2. *All board members, staff and volunteers know where to access up- to-date Chapter policies and procedures.*

FOR MORE INFORMATION AND RELATED TOOLS & TEMPLATES

- RMHC Accounting and Financial Policies & Procedures Manual Template
- RMHC Financial Management Standards & Guidelines: Foundational Area of Focus No. 5
- RMHC People Guide

Foundational Area of Focus 6:
FINANCIAL LITERACY

Standard 6.1 ***All current and future employees, volunteers and board members have the essential financial knowledge relevant to their role, including the necessary experience and skills to successfully carry out their responsibilities.***

B

Priority Level

INITIAL REVIEW RECOMMENDATIONS

- *Review all job descriptions for roles that have finance related responsibilities.*
- *Identify what essential financial knowledge and skills are required.*
- *Develop a plan to ensure current employees have the knowledge and skills required.*

HOT TIPS FOR IMPLEMENTATION

- *During the recruitment process, ensure there is clarity on what is needed to achieve all financial related responsibilities.*
- *Investing in your people through training and development opportunities is essential in supporting them to grow and develop in their role.*
- *Developing a competency matrix that includes specifics on financial expertise required by role type can help provide a quick snapshot of what is necessary for success.*

WHAT DOES SUCCESS LOOK LIKE?

1. *The Chapter has skilled and knowledgeable personnel successfully steering and managing financial resources, processes and day- to- day operations, which helps mitigate Chapter risks.*

FOR MORE INFORMATION AND RELATED TOOLS & TEMPLATES

- RMHC People Guide
- A glossary of financial terms
- BoardSource: Are Your Financial Statements Trying to Tell You Something? (To access this resource Click Here for free membership)
- Reading Financial Reports (External organization example)
- RMHC Financial Management Standards & Guidelines: Foundational Area of Focus No. 6

Foundational Area of Focus 6:
FINANCIAL LITERACY

Standard 6.2 ***There are succession plans in place for employees with Chapter financial leadership responsibilities and the role of the Board Treasurer.***

C

Priority Level

INITIAL REVIEW RECOMMENDATIONS

- *Identify roles with Chapter financial leadership responsibilities.*
- *Review the Succession Planning section in the RMHC People Guide.*
- *Develop a plan that includes a process for identifying any potential internal successors and a process of documenting key knowledge needed to achieve a successful transition.*

HOT TIPS FOR IMPLEMENTATION

- *Succession plans are useful for all key roles within the Chapter.*
- *Cross-training among Chapter staff can also be helpful if the size of the team allows.*
- *Documenting critical information that would need to be provided as part of a transition is also good risk management.*

WHAT DOES SUCCESS LOOK LIKE?

1. *Financial operations continue to run smoothly as people in key roles change.*

FOR MORE INFORMATION AND RELATED TOOLS & TEMPLATES

- RMHC People Guide

RMHC Financial Management Standards & Guidelines: Foundational Area of Focus No. 6

Foundational Area of Focus 7:
FINANCE AND FUNDRAISING

Standard 7.1

There is compliance with all legislation relating to fundraising activities, including registering in every state where required by local laws.

A

Priority Level

INITIAL REVIEW RECOMMENDATIONS

- *Research fundraising legal requirements in your country or region. This will include looking at all levels, (e.g. state and regional as well).*
- *Consider a review by an external legal professional to ensure compliance.*

HOT TIPS FOR IMPLEMENTATION

- *Developing and maintaining a "compliance checklist" will help with oversight and continued adherence.*
- *Chapter fundraising policies must reflect current legal requirements and should be reviewed regularly (at least every 2 years).*
- *Consider utilizing the Third-Party fundraiser guidelines templates to help ensure third-parties conducting fundraisers on behalf of your Chapter are complying with fundraising regulations.*

WHAT DOES SUCCESS LOOK LIKE?

1. *The Chapter is in compliance with all legislation relating to fundraising activities.*
2. *The Chapter's reputational risk is mitigated by ensuring adherence to legal requirements.*
3. *Chapter fines, penalties and risk to charitable status is avoided by complying with all regulations.*

FOR MORE INFORMATION AND RELATED TOOLS & TEMPLATES

- Third-Party Fundraiser Guidelines Templates
- BoardSource:Fundraising Roles (To access this resource Click Here for free membership)
- BoardSource: Fundraising Responsibilities of Nonprofit Boards, Second Edition (PDF)
- BoardSource:Informed Fundraising: An Introduction and Guide (PDF) (To access this resource Click Here for free membership)
- RMHC Financial Management Standards & Guidelines: Foundational Area of Focus No. 7

Foundational Area of Focus 7:
FINANCE AND FUNDRAISING

Standard 7.2 ***Fundraising practices are consistent with RMHC Guiding Principles for Financial Management and local ethical fundraising guidelines.***

B

Priority Level

INITIAL REVIEW RECOMMENDATIONS

- *Review internal fundraising practices and determine if they are in line with the RMHC Guiding Principles for Financial Management as outlined in section 2 of this resource and your local ethical fundraising guidelines.*

HOT TIPS FOR IMPLEMENTATION

- *Local ethical fundraising guidelines are generally available through your local Fundraising Professionals association and should form the basis of Chapter practices in alignment with RMHC Guiding Principles for Financial Management.*
- *The Finance Committee should discuss and approve any strategies that may have an impact on the RMHC Brand.*

WHAT DOES SUCCESS LOOK LIKE?

- *Chapter fundraising practices instill donor confidence and help mitigate Chapter risks.*

FOR MORE INFORMATION AND RELATED TOOLS & TEMPLATES

- BoardSource: Fundraising Responsibilities of Nonprofit Boards, Second Edition (PDF)
- BoardSource: Informed Fundraising: An Introduction and Guide (PDF)
- BoardSource: Fundraising communications Toolkit for Boards
- Third-Party Fundraiser Guidelines Templates
- BoardSource: 10 Tasks of a Development Committee
- Section 2 – Guiding Principles and Financial Management Standards
- RMHC Financial Management Standards & Guidelines: Foundational Area of Focus No. 7

Foundational Area of Focus 7:
FINANCE AND FUNDRAISING

Standard 7.3 ***There are practices in place to ensure donor restrictions on use of funds are honored, including the maintenance of donor documentation requesting restrictions.***

A

Priority Level

INITIAL REVIEW RECOMMENDATIONS

- *Review internal practices to check for a process to document and maintain ongoing compliance with donor restrictions.*
- *If a new process needs to be established, develop a plan of action.*

HOT TIPS FOR IMPLEMENTATION

- *Ensure adequate consultation takes place internally with respect to donor restrictions to make sure that the Chapter is able to meet the donor's restriction(s) prior to accepting the gift.*
- *Establish a framework to ensure ongoing compliance with restrictions.*

WHAT DOES SUCCESS LOOK LIKE?

1. *Chapter donors are confident that their gift is being handled in an appropriate manner and helps further the Chapter's mission.*
2. *The Chapter is compliant with audit and other requirements to maintain documentation of donor restrictions.*

FOR MORE INFORMATION AND RELATED TOOLS & TEMPLATES

- BoardSource: Fundraising communications Toolkit for Boards
- BoardSource: Fundraising Roles (To access this resource Click Here for free membership)
- RMHC Financial Management Standards & Guidelines: Foundational Area of Focus No. 7

Foundational Area of Focus 7:
FINANCE AND FUNDRAISING

Standard 7.4 ***Staff responsible for Chapter finance and fundraising/development regularly review fundraising activities based on analysis of return on investment (ROI) and cost to raise a dollar to ensure the optimization of fundraising strategies and activities.***

A

Priority Level

INITIAL REVIEW RECOMMENDATIONS

- *The Chapter's Organizational / Finance Leader and Fundraising staff develop a process that ensures strategies and outcomes are discussed as an ongoing way of practice.*

HOT TIPS FOR IMPLEMENTATION

- *A comprehensive Chapter fundraising plan includes a variety of strategies to achieve overall revenue goals.*
- *It is important to review ROI for each different activity/strategy as well as in total. At times, it may be necessary to undertake some more expensive strategies to grow donor base, balanced by other less costly activities.*
- *This should be reviewed quarterly against established RMHC Financial Metrics as well as any internal board-mandated standards.*

WHAT DOES SUCCESS LOOK LIKE?

1. *Fundraising goals achieved within an acceptable range of fundraising costs demonstrates financial resources are being prudently managed by Chapter.*

FOR MORE INFORMATION AND RELATED TOOLS & TEMPLATES

- BoardSource: Fundraising Roles (To access this resource Click Here for free membership)
- RMHC Financial Management Standards & Guidelines: Foundational Area of Focus No. 7
- RMHC Financial Management Standards & Guidelines: Foundational Area of Focus No. 4

Board Financial Oversight

STRONG FINANCIAL MANAGEMENT IS CRITICAL TO THE FINANCIAL sustainability of all nonprofit organizations. While day-to-day financial management is the responsibility of each Chapter's management, the board of directors has a fiduciary responsibility to protect the assets of the Chapter and manage those assets to maximize the delivery of mission.

Throughout this Guide, the term board or board of directors is used to refer to the governing body of the Chapter. As outlined in the RMHC Governance Guide, some Chapters will call this group their executive board, governing board, board of trustees, or some other term, but for the purposes of this Guide, we'll use the term board, or board of directors.

The board of directors is the body that approves the budget, amends and adopts the bylaws, hires and evaluates the senior staff person (referred to as the Organizational Leader within the RMHC System), establishes the strategic plan and, in general does the policy work of the Chapter. Take a moment to think of what this governing body is called at your Chapter and keep that in mind as you read through the Guide. Remember, that members of the board are, in most countries, fiduciaries of the organization; that is, personally responsible for the actions of the Chapter. It is a big responsibility.

Nonprofit boards are entrusted to: [1]

- Determine mission and purpose
- Select the Organizational Leader
- Support and evaluate the Organizational Leader
- Ensure effective planning
- Monitor and strengthen programs and services
- Ensure adequate financial resources
- Protect assets
- Provide financial oversight
- Build a competent board
- Ensure legal and ethical public standing

In summary, boards exist to establish strategic direction, ensure there are required resources in place, and provide general oversight.

STANDARDS

1.1 ***The board ensures the Chapter complies with all relevant (local, national and international) laws and any other requirements relating to the operation of a nonprofit organization.***

1.2 ***The board achieves its fiduciary responsibilities without receiving compensation or payment.***

1.3 ***The board finance committee supports Chapter management with the implementation and monitoring of the RMHC Financial Management Standards and Guidelines.***

1.4 ***There is an audit and/or a finance committee in place that reports directly to the board and is responsible for the engagement of an external audit firm.***

1.5 ***The board approves an annual external audit upon the recommendation of the audit/finance committee and oversees the implementation of any resulting action(s) required.***

1.6 ***The board ensures there is a long-term financial plan in place to support the Chapter's strategic objectives and its overall financial health and sustainability.***

1.7 ***The board finance committee reviews and updates the board on the financial activities of the Chapter on a regular basis to ensure actual financial performance is aligned with the board-approved operating budget.***

Throughout the Guide, these icons highlight important information, reference other RMHC guidebooks, and provide links to additional resources available to download.

Logon to www.rmhcradar.org to access RMHC hyperlinks.


Activity


For more information *(hyperlink)*


Hot tips


Quick reference


Tools and templates to download *(hyperlink)*

GUIDELINES

A. Board Fiduciary Duties

As stated in the ***RMHC Governance Guide*** *(page 11)* "In most countries, laws related to nonprofits state that nonprofit board members are considered the fiduciaries of the organization, which means that they are personally responsible for the actions of the organization and therefore can be held personally accountable if funds are mismanaged, or actions are taken that result in personal injury".

A fiduciary duty is defined as the obligation to act in the best interest of another party. For board members, that means acting to protect the property, financial assets and, just as importantly, the reputation of the organization.

Generally, there are three fundamental areas of fiduciary duties:

1 Duty of care

To fulfill this duty, board members need to have the necessary education and knowledge to perform their role, attend and actively participate in board meetings, provide strategic direction, ensure the prudent use of Chapter assets, build and protect the nonprofit's reputation and provide general oversight for all activities that advance effectiveness and financial sustainability.

2 Duty of loyalty

This requires board members to operate in the interest of the Chapter and not to use their position on the board to pursue a personal agenda. A robust conflict of interest policy is critical to fulfilling the duty of loyalty.

Conflict of Interest Template

3 Duty of obedience

It is imperative that the board is aware of and ensures compliance with all applicable laws and regulations. It is also equally critical that the Chapter adheres to its stated purpose, limits its activities only to those that advance its mission and those that are within the scope of its legal documents.

Obedience to governing documents requires a deep understanding of the operating documents (license agreement with McDonald's Corporation, by-laws, rules, board manuals) and a clear understanding of the difference between the terms "may" and "must" contained in those documents.

Board of directors roles and responsibilities

Members of the board of directors should be focused on several key responsibilities as they serve their RMHC Chapter.

Specifically, these include:

- Ensure the Chapter achieves its mission and adheres to its values: this includes ensuring a strategic plan is in place and evaluating proposed actions against the organization's mission and strategic plan.
- Hire/support/evaluate/discharge the Organizational Leader (including setting compensation): As stated in the ***RMHC Governance Guide*** *(page 8)*, the third rule of nonprofits "The Executive Director [Organizational Leader] works for the Board. Everyone else works for the Executive Director."
- Ensure the organization is well-managed: this includes having qualified staff members, allocating resources for the greatest effectiveness, putting in place and following internal controls to prevent fraud, proper governance and ethical standards, and ensuring program goals are met.
- Exercise financial stewardship: this includes ensuring a long-term financial plan is in place, and reviewing and approving the annual budget and other major financial transactions that affect net assets.

LISTING IS CONTINUED ON NEXT PAGE

CONTINUED

- Ensure compliance with laws and regulations.
- Review and approve key policies and procedures.
- Ensure appropriate succession plans are in place for Chapter management.
- Oversee assets: ensuring that the use of the organization's assets is consistent with mission, regulatory requirements and generally accepted accounting principles (GAAP).
- Oversee the compensation and investment management policies and processes; this is usually done by the finance committee or other board committee.
- Protect the organization from external threats: this includes protecting the Chapter's reputation and having plans in place to mitigate other risks.
- In conjunction with executive staff, provide leadership on organizational transition, structure and planning.
- Conduct affairs of the board including board development, transition, and evaluating effectiveness.

Other responsibilities of the board also include:

- Fundraising
- Planning
- Public and Community Relations

Preparing the board and its members for success

> Use a board charter to communicate expectations, roles and responsibilities

> Provide an orientation to new board members

> Explain and illustrate the flow of information between board members, committees and management

> Communicate expectations on meeting preparation

> Provide copies of the RMHC Governance Guide, Strategic Planning Guide, Financial Management Standards and Guidelines and any other relevant RMHC Global resources

> Provide adequate time for board meeting preparation, by sending: agendas, minutes from the previous meeting, and any preparation documentation in advance of the meeting

> Ensure there is an appropriate board committee structure

> Ensure the relationship between the board and executive staff is clear

The board responsibilities versus management responsibilities

Both the Chapter's board and its management must have a clear understanding of the distinctive roles that each group fulfills. At times, confusion and conflict may occur when the distinctions are not clear. Board members do not have individual power or authority. Instead, these powers reside with the full board and its committees. It is up to the Chapter's management to "do" and to the board to "guide, review and approve/endorse". The board sets standards to measure how well management performs.

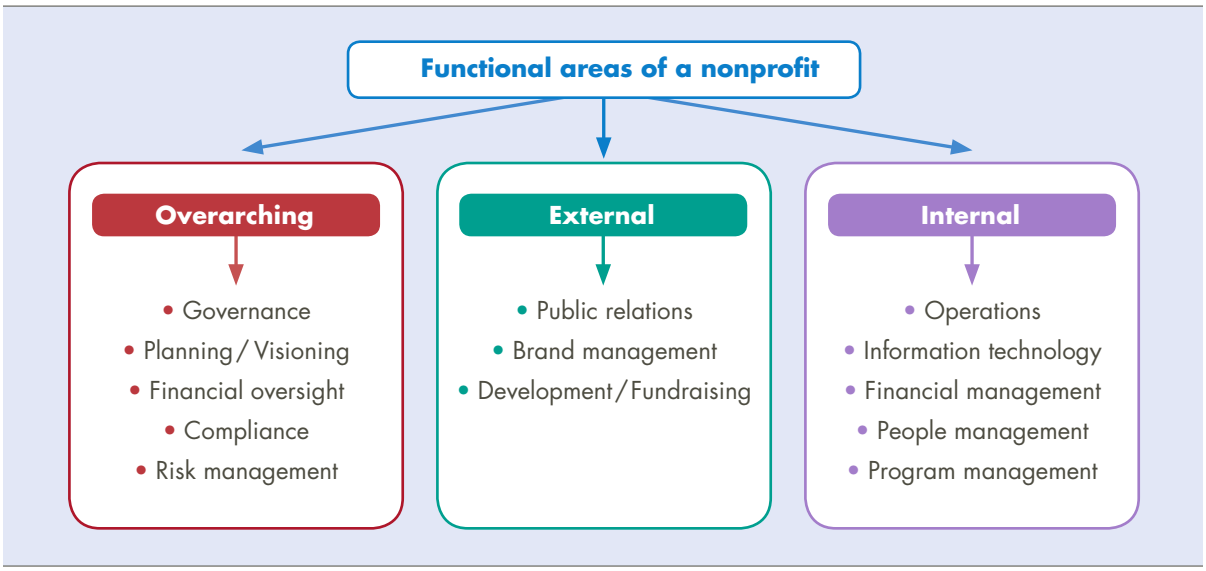
As indicated in the RMHC Governance Guide, it is best practice in nonprofit board governance to have effective and active committees. The board continues to have oversight authority, but a committee's smaller size allows it to carry out its responsibilities more efficiently and in a more practical environment.

The board is generally empowered to create committees at its discretion, subject to the organization's bylaws and the laws of the state, province or country of its incorporation. For each committee it creates, the board should determine the level of authority to be given to the committee and how it will maintain appropriate oversight of the committee's actions. When properly used, committees can serve to alleviate some of the workload of the full board and to help increase board efficiency.[2]

RMHC Governance Guide

Engaging a qualified accounting firm to perform an external audit of the financial records and processes is a key responsibility of the board. The external auditor is responsible for providing an independent audit opinion and is accountable to the board, not to management (referring to the Organizational Leader, for the purposes of this Guide). The accounting firm should be selected by the audit or finance committee on behalf of the board. The audited financial statements are to be presented to the audit or finance committee prior to distribution to the full board for its review and acceptance.

The illustration below provides an overview of the responsibilities of the Chapter's board and management. Moving from left to right, it depicts the board's overarching role of governance and planning (with support by management), while the external functional area suggests roles of both the board and management, and the internal functional area is the responsibility of management.



Adapted from: Ted Bilich, "A Call for Nonprofit Risk Management". *Stanford Social Innovation Review*. July 13, 2016.

B. The Board Finance Committee

Although the specific parameters for and expectations of each committee should be set out by the board in a charter or other document, a finance committee will typically be responsible for monitoring and communicating to the board about the organization's overall financial health. Its core duties are likely to include participating in and overseeing the development of the organization's financial planning and budgeting and the preparation and distribution to the board of timely, accurate, and user-friendly financial reports. If the organization does not have a separate board investment committee, the finance committee also oversees the organization's investment portfolio and investment policies and procedures, including for its endowment if the Chapter has an endowment.

Since compensation is such a significant component of the operating budget, the finance committee should be involved in reviewing compensation to ensure the Chapter has adequate financial resources to meet the compensation needs of the Chapter.

RMHC People Guide 2 – Leading People

See "Compensation philosophy, calibration and process" on page 58

The finance committee should have the following responsibilities:

- Perform long-term financial planning in partnership with Chapter management and ensure that financial objectives align with the organization's strategic plan. Recommend corrective actions to the board as appropriate.
- Provide oversight for the development and review of the annual budget.
- Review, on a regular basis, the organization's internal financial statements and recommend actions to be undertaken by the board as needed.
- Oversee the administration, collection, and disbursement of the organization's financial resources, in addition to the related policies and procedures.
- As needed, investigate and provide guidance regarding financial implications of a pertinent issue or transaction as directed by the board.
- Advise the board with respect to making significant financial decisions.
- If the Chapter doesn't have a separate audit committee, the finance committee should also perform the duties of the audit committee described in Section C, titled: "The Board Audit Committee", beginning on page 7.

The role of the board treasurer

A treasurer is an executive officer of the board and primarily responsible for oversight of the management and reporting of the Chapter's finances. The role of treasurer may vary depending on the management structure of the Chapter.

Common duties for a board treasurer include:

Bank account maintenance	Select the financial institutions in which the Chapter will hold its assets. Sign checks or authorize electronic or wire transfers of funds.
Financial transaction oversight	Be knowledgeable about who has access to the Chapter's funds and any outstanding bills or debts owed. Develop systems for keeping cash flow manageable.
Budgets	Develop/support the development of the annual budget; compare the actual revenues and expenses incurred against the budget.
Financial policies	Oversee the development and observation of the Chapter's financial policies.
Reports	Keep the board regularly informed of key financial events, trends, concerns, and assessment of financial health in addition to completing required financial reporting in a timely fashion and making this reporting available to the board.
Finance committee	Serving as the Chair (or a member) of the finance committee.

c. The Board Audit Committee

The audit committee is charged with the critical role of assessing the Chapter's capability to carry out its fiduciary duties effectively, accurately and with integrity. The guiding principles of the audit committee are to operate with accountability and independence. If a Chapter does not have a board audit committee, the audit committee responsibilities should be performed by the board finance committee.

To govern effectively, the board must verify that management has adopted financial policies that are compliant with regulations and best practices and adhere to high ethical standards. The audit committee's primary role is to instill confidence in stakeholders that the Chapter's financial and tax status, internal controls, risk management and compliance procedures allow it to fulfill its mission.

The audit committee is also responsible for ensuring that the Chapter is conducting business in a way that avoids conflicts of interests. If overlapping financial interests or personal relationships exist, they must be fully disclosed, and the appropriate individual must recuse themselves from discussions and voting on related matters. The board needs to approve a plan to monitor the conflicted relationship so that they do not create bias in business decision-making.

The audit committee has four main roles in the governance of the Chapter:

1 *Oversee all material aspects of the Chapter's financial reporting, accounting policies and internal controls that promote strong financial stewardship.*

The audit committee must understand the organization's financial management practices and monitor any corrective actions that may be necessary as a result of the external auditors' testing and review of the organization's internal controls and regulatory compliance procedures. These activities are meant to safeguard the organization's assets, promote the reliability and accuracy of its financial reporting and mitigate the risk of fraud.

2 *Oversee the organization's external audit process.*

The audit committee is responsible for overseeing the external audit process. Audit committee members should meet with external auditors at least twice a year: once to discuss the workplan for the external audit, and once to discuss the audit findings before they are presented to the full board.

Detailed responsibilities of the audit committee for oversight of the external audit process, are as follows:

- Recommend and appoint an independent audit firm.
- Discuss the propriety of financial statement presentation and the adequacy of footnote disclosures.
- Review disclosures in financial statements to confirm clear and appropriate communication of financial information.
- Review and approve the scope of the work plan for the external audit.
- Receive and act upon the results of the external audit.
- Require follow-up and corrective action plans to be presented by management.
- Monitor implementation of the auditors recommendations.
- Report to the board the results of the external audit.
- Evaluate the performance of the external auditors.
- Resolve disagreements between the external auditors and Chapter management.
- Review and approve the contract for any non-audit services provided by the external auditors (optionally, for fees exceeding a certain threshold) if so required based on policy or audit committee charter.

3 *Oversee the organization's compliance responsibilities.*

All nonprofit organizations must comply with applicable tax, legal, ethical and regulatory requirements. Regulatory standards commonly dictate financial, safety, employment, grants and contracts, spending and investment practices. Further, most nonprofit organizations must adhere to regulations specifying how they carry out their programs and what types of matters must be reported to regulators.

An effective audit committee must have a basic understanding of compliance standards that affect the organization and how the organization adheres to those standards.

Common oversight tasks for the audit committee in the area of compliance include:

- Review internally- and externally-produced reports
  - > Reports on the organization's compliance with laws and regulations that have a direct and indirect effect on financial reporting
  - > Reports on compliance with the organization's internal policies and procedures that are designed to ensure compliance
- Oversight of government tax reporting
- Make certain that conflict of interest and code of ethics policies are implemented and applicable to employees and the board
- Review significant conflicts of interest and related-party transactions
- Ensure the existence of whistleblower procedures through which stakeholders, including employees, can raise concerns without fear of retaliation
- Ascertain that a record-retention policy is in place and being followed

4 *Inquire how the business risks of the organization are being planned for and managed.*

Other board committees will have a role in overseeing specific areas of risk. However, it is usually the role of the audit committee to ask the overarching questions that help determine if the planning for and internal controls governing those risks are adequate. To do this, the audit committee must understand the organization's risk profile in terms of governance, employee, financial, operational, regulatory compliance, technology, economic, legislative, competitive, and fraud.

Some specific risk areas to address may include:

- Investment practices
- Relationships with affiliated organizations
- Disaster recovery plans
- Adherence to donor and grantor requirements
- Insurance/litigation claims and adequacy of coverage
- Vulnerability to technology breaches from inside and outside the organization
- Adherence to conflict of interest policies
- Risks associated with various financing agreements and structures
- Overall organization profile compared with industry standards

The business risk tasks most commonly assigned to an audit committee include business risk management and mitigation:

- Understanding the comprehensive assessment of the business and reputational risks faced by the organization, along with management's plan to manage those risks
- Holding management responsible for the effective design and implementation of internal control structure over financial reporting, non-financial reporting, asset stewardship, compliance with laws and regulations, protecting personal employee identification and information, and private and confidential employee data

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- Providing the external auditor open access to the audit committee for discussion of issues, concerns and scope of work
- Overseeing the whistleblower policy and process, and confirming that employees have a confidential way to report concerns regarding fraud, financial impropriety and misuse of funds

Composition of the audit committee

The audit committee is generally composed of three to five members, the majority of whom should be board members. (In the U.S., some states now require that all audit committee members be trustees.) Regulations permitting, audit committee members who are not on the board can serve effectively and in many instances, can serve as accounting or financial statement experts if no board members have that expertise. All audit committee members should be independent of the organization's management — that is, they must not accept, directly or indirectly, any salary or compensatory fees from the organization.

Attributes and characteristics required for audit committee members

- Knowledge of the primary activities and operations of the organization
- A solid grounding in knowledge of business and finance
- An understanding of internal control concepts
- Financial literacy (i.e., an understanding of basic financial terminology and the ability to read and interpret financial statements)
- Knowledge of business risk and ability to link key operational and financial risks to related controls and control processes
- An understanding of compliance issues unique to the organization

One or more members should be a financial expert, possessing professional knowledge of financial reporting (including GAAP) and internal controls over financial reporting. Ideally, the financial expert should have specific knowledge of financial reporting practices used by nonprofit organizations. Of course, the supply of individuals with such backgrounds will vary considerably from one organization to the next. If your organization does not have board members with a financial background, you should actively recruit bankers, accountants and other financial professionals to fill this need.

It is very important for audit committee members to possess the skills to listen and actively question what they are told. The audit committee members must be able to maintain a healthy skepticism, and should ask management pointed questions about practices, policies and needed improvements. They should pursue issues until satisfied with the answers received.

Individuals who are uncomfortable asking challenging questions or coming to critical conclusions cannot serve effectively on an audit committee. The role of the audit committee is not to challenge management for the sake of being challenging, but rather to ensure that needed improvements to controls, risk management and financial practices are diligently put in place.

The final characteristic an audit committee member must possess is a willingness to commit the time and effort necessary to do the job. Depending on your Chapter's size and structure, this time commitment could be substantial.

Audit Committee Charter Example

Working with external auditors

Audit committee members will spend much of their time working with the organization's external auditors, who have been appointed by the audit committee — or the board itself — to assist in assessing the organization's financial condition and stewardship functions. Most audit committees meet two to four times per year. At a minimum, the committee should hold one meeting with external auditors to plan the audit and one to review results.

Selecting the external auditors

- The evaluation and selection of the external auditor must be made by the audit committee, not by management. The audit committee may solicit the views of management, but the responsibility for monitoring the external audit function rests with the audit committee.
- Decide carefully, based on the criteria discussed in the section "Evaluating the external auditors" on page 11, whether a change in external auditors is warranted. If it is, it is standard practice to solicit qualified audit firms to submit proposals for performing the audit on a three- to five-year cycle. An acceptable alternative to changing audit firms is to consider partner rotation with your current provider. Partner rotation is referring to asking the external audit firm to change the person in charge of the Chapter's external audit at the audit firm. The responsibility to evaluate the services of — and possibly replace — your current external auditor should not be taken lightly.
- Agree on the relative importance of your evaluation criteria before reviewing proposals.
- Determine the critical business, financial and regulatory issues facing your organization, and agree on the size, depth of resources, industry expertise and range of capabilities that a firm must possess to address these issues.
- Provide potential firms the opportunity — before they propose — to meet with management in person and review past audited financial statements and internal control letters.

Auditor Request for Proposal Template

The pre-audit meeting

Prior to the audit, the audit committee should meet with the external auditors to review their work plan and set expectations for the upcoming work. An auditor's work plan details its strategy for conducting the audit. The work plan identifies those areas that the auditor has targeted for the closest scrutiny, and sets a schedule for the audit.

Audit committee members should review the work plan with the external auditors in light of the prior year's audit results and the audit committee's own concerns regarding business risks, internal controls and other pertinent issues. If the audit committee has concerns about a specific financial area, the external auditors' work plan should include it. If the work plan does not include that area, the audit committee must determine with the external auditors whether to add it. The audit committee must then review and approve the cost of any additional work it requests.

The pre-audit meeting is also the opportunity for external auditors to solicit input from the audit committee on areas of the financial statement and internal controls risk, including the risk of fraud.

The audit committee should discuss with the external auditors any internal control issues or other issues raised by the prior year's audit. The audit committee should inform the external auditors of the steps, if any, that management has taken to resolve those issues and should seek the external auditors' opinion of those solutions.

During the pre-audit meeting (as well as the post-audit meeting), the audit committee should meet in separate executive sessions with external auditors and management. These executive sessions should be a standard part of the pre-audit meeting.

If an executive session deals with situations involving compliance or whistleblowing, the audit committee may want to have its own legal counsel present.

Evaluating the external auditors

Part of the audit committee's responsibility is to evaluate the work of the external auditors. The audit committee should consider many factors when performing this evaluation:

- **Timeliness of service.** Your external auditors should have a strong commitment and demonstrated track record in timely service delivery. Working with your Chapter to plan and execute the audit, communicating regularly with you, and responding quickly to your questions and concerns are all essential to concluding the audit promptly, as well as meeting your expectations and those of the board.
- **Ability to address issues unique to your Chapter's risk profile.** The audit firm must be able to understand your Chapter's funding streams, accounting policies, license requirements, regulatory environment and general business conditions; in other words, the aspects that make up your organization's unique risk profile. Chapter staff should not have to teach the firm's staff how to work with nonprofit organizations. Instead, the audit firm should provide critical information and business advice that will help improve your Chapter's operations.
- **General industry knowledge.** Auditors need experience in providing guidance and information relevant to nonprofit organizations and their many stakeholders. Donors, regulators, funding agencies, charity watchdogs, and consumers all rely on your Chapter's financial information, and your audit firm must be able to view that information through each of those lenses.
- **Specific nonprofit accounting and reporting expertise.** The nonprofit sector has specific accounting requirements that an auditor should know thoroughly. Demonstrated expertise in nonprofit accounting and reporting is essential.
- **Experience with tax requirements pertinent to nonprofit organizations.** Exemption from paying taxes doesn't mean exempt from tax consequences. Because retaining its tax-exempt status is essential for a nonprofit organization, accurate reporting and tax compliance are equally essential. The auditor must have enough experience to understand the tax regulations, risks and concerns unique to nonprofit organizations.
- **Sufficient staffing.** Insufficient staffing, staffing turnover or inadequately trained personnel at the audit firm can lead to delays or poor performance.
- **Price.** While price should not be the sole determining factor in your choice of auditor, it should be a consideration. Be sure to evaluate the auditor's qualifications and value relative to the fee that is proposed.
- **Relationship.** The auditors' ability to build trust and have a positive working relationship is critical to a productive professional relationship with management. Respect and rapport are essential to an effective working relationship and are necessary to resolve technical and business issues, as well as provide recommendations to improve the organization's internal control environment and business practices.
- **Providing value.** An audit is not a commodity service. Your Chapter's relationship objective should be far more than getting a signed, clean audit opinion from an auditor. The audit should be viewed as an opportunity to add value to the organization and reduce its risks. An audit firm should possess the breadth of industry and business knowledge to offer ongoing, meaningful insights on the external landscape, internal operations and practices, and how the organization is positioned to respond to threats and challenges. The firm should also have the capability to assist management in keeping the board and audit committee informed of significant industry trends, challenges, threats and opportunities.

D. Long-term Financial Planning

The board plays an important role, along with management, in planning for the long-term financial health of the Chapter. The board, working through the board finance committee, should ensure a long-term financial plan is in place and that the plan is updated and revised on an annual basis.

Long-term financial planning process

The financial planning process begins by developing financial projections for the next three to five years. The projections should be done periodically as part of the Chapter's strategic planning process. The long-term financial plan should be based on all current programs of the Chapter, as well as those approved as part of the strategic plan.

The purpose of the long-term financial plan is to:

- Identify financial resources needed to support the strategic plan, including the Chapter's capital budget.
- Identify any future period surplus or deficits.
- Identify cyclical aspects of the Chapter's cash flows.
- Bring together in one place the interacting sources and uses of funds needed by the Chapter for its future operating, cash, and capital needs.

Long-term financial planning tools

Financial planning tools can be useful to simulate the "real world" impact on the Chapter given basic assumptions that are tied to the strategic plan. The financial planning tool becomes a representation of how the Chapter works and functions, and how decisions made currently may impact future financial outcomes.

The financial planning tool adds value to the strategic plan by dynamically showing the interrelationship of all aspects of the Chapter's financial operations. This financial model will:

- Show asset requirements of growth and financing requirements, by projecting key elements of the balance sheet.
- Highlight the interrelationship between various financial accounts.
- Show the effects of revenue, expense, and capital needs on cash and cash reserves.
- Allow for a view of financial position, funding needs, and revenue coverage of expenses when any single input to the model changes in value. This "what-if" scenario analysis feature can become a powerful tool in the Chapter's planning process.

RMHC Long-Term Financial Planning Tool

E. Ongoing Monitoring of Financial Activities

The board has a responsibility to monitor the ongoing financial activities of the Chapter. Monitoring the financial activities starts with the development of financial reports. There are two basic types of financial reports produced by nonprofit organizations: external reports, and internal reports. External reports are designed to give financial information to individuals and groups outside of the organization. Examples of such external stakeholders include government agencies, granting agencies, banks and other financial institutions that have an interest in the organization. These reports would include the certified audit report,

government compliance or tax reports, banking related reports, and reports that may be required by granting organizations and donors.

Internal reports are designed to keep management and the board informed of the ongoing financial activities of the Chapter. For the board and management to fulfill their responsibility to monitor the financial activities of the Chapter, the reports must be accurate and timely, have a mission attainment focus, and evidence accountability.

Since internal reports are used by both the management and the board, the detail of the reports and frequency of the report must be determined to meet the needs of the user. The management reports will be more detailed and produced more frequently than board reports. The members of the board and its committees should be consulted about the level of detail they desire and the frequency in which the reports are produced to ensure that board members can fulfill their monitoring responsibilities. The following section will review the most common types of reports used by boards of nonprofit organizations.

Budget variance reports

Perhaps one of the most important reports for management and the board are budget variance reports. Typically, the budget variance report focuses only on the operating budget, but if management and the board are to monitor the ongoing financial activities of the Chapter, that focus should be broadened to include the capital and cash budgets.

- **Operating budget.** This report shows the difference between actual activity and budgeted activity. It is best practice to produce the operating budget variance report monthly. The board may only review this report quarterly, but the monthly production gives management the opportunity to review the variance report and take corrective action if necessary more frequently.
- **Capital budget.** This report allows management and the board to see the actual capital spending for the project compared to the approved capital spending. By the nature of a capital project, the report will not be confined to a fiscal period, but will show the activity over the life of the capital project.
- **Cash budget.** This report shows cash on hand at a certain point in time compared to the amount projected at the time the cash budget was prepared. It serves two purposes. First, it gives the user an accurate report of the cash on hand. Second, it is a check to the accuracy of the cash projections made at the time the cash budget was prepared.

Annual financial statements

Although the annual financial statements are used for external purposes, they also provide useful insight to internal users. They can be used in analyzing financial trends for the Chapter, as well as making comparisons to other Chapters and other nonprofit organizations.

Fundraising management and evaluation

Because the Chapter relies on fundraising to support its programs, the fundraising management and evaluation report is important and useful for the development and finance staff. The fundraising report also becomes a useful tool for the board development committee as well as the finance committee. This report can give early warning if there appears to be a challenge in meeting fundraising targets.

References

1. Ingram, R.T. *Nonprofit Governance:* "Ten Basic Responsibilities of Nonprofit Boards". *BoardSource,* Second Edition, 2000.
2. Nonprofit Law Blog. Neo law group. *The Finance Committee: What is it and What Does it Do?. http://www.nonprofitlawblog.com/the-finance-committee-what-is-it-and-what-does-it-do/*

The following documents from Grant Thornton have been used in the development of this document:

- *Not-for-Profit Audit Committee Guidebook*
- *Not-for-Profit Board Guidebook*

Risk Management

EFFECTIVE RISK MANAGEMENT CAN SAVE SIGNIFICANT RESOURCES, which ultimately translates into more funds to carry out the mission of the charity. Risk management is critical in protecting income, data, reputation, and stakeholder confidence.

Risk management has two major components: loss prevention, and loss control (reduction of loss). All RMHC Chapters need to understand and play an active role in managing a risk program that includes risk assessment, internal controls, insurance, and compliance with laws and regulations of their country/region.

STANDARDS

2.1 ***There is an ongoing process in place that includes board representatives and Chapter staff assessing and managing risks relating to and/or impacting Chapter finances.***

2.2 ***The Chapter complies with its own financial-related policies and procedures.***

2.3 ***There are internal controls in place (relevant to the size and scale of the Chapter) to prevent, detect and respond to fraud and errors.***

2.4 ***In addition to the insurance coverage requirements outlined in the Chapter's license agreement with McDonald's Corporation, there is adequate insurance coverage for other items relevant to the Chapter's activities.***

Throughout the Guide, these icons highlight important information, reference other RMHC guidebooks, and provide links to additional resources available to download.

Logon to www.rmhcradar.org to access RMHC hyperlinks.


Activity


For more information *(hyperlink)*


Hot tips


Quick reference


Tools and templates to download *(hyperlink)*

GUIDELINES

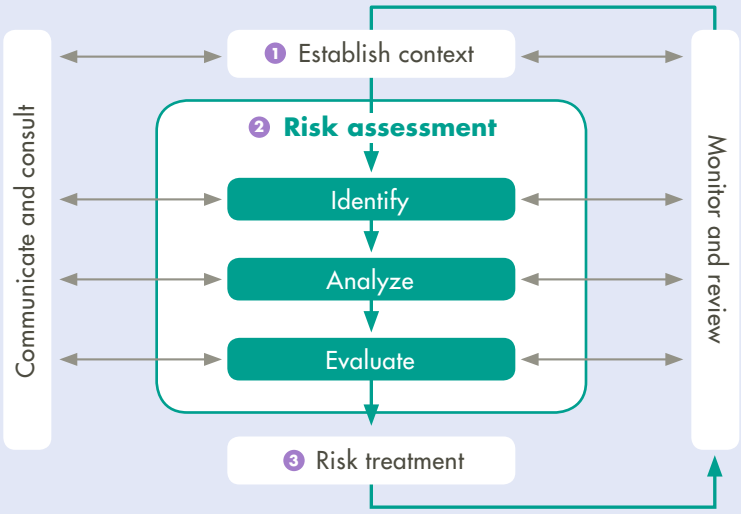
A. Financial Risk Assessment and Management

According to the Institute of Risk Management, "A risk is something uncertain—it might happen or it might not."[1] If "something" happens, at some level it will have an impact to the Chapter. Risk management then, is "any activity undertaken to identify and then control the level of risk" the Chapter may face.

Effective risk management involves an ongoing process of assessment, treatment, monitoring and review. The frequency and timing of these processes will vary according to the size and complexity of the Chapter as well as the changing landscape in which it operates.

For risk management to be effective, Chapters will need to follow a process and continue to review it as circumstances change over time. As new risks emerge, risks may become more or less likely to occur; some risks might go away altogether.

The diagram below summarizes a **standard risk management process**, which can be used by any organization regardless of its size, activity or sector. This process aims to assist organizations increase the likelihood of achieving objectives, improve the identification of opportunities and threats and effectively allocate and use resources for risk treatment.



The Chapter's board has ultimate responsibility for anticipating, managing and reducing risk and is expected to regularly review and assess the risks faced by their Chapter in all areas of its work, as well as plan for the management of those risks. Depending on the Chapter's location, there may even be a legal requirement to include a risk management statement in its annual financial report.

In practice, though, risk management is often delegated to Chapter management. Everyone involved in the Chapter's activities has a part to play in risk management. To ensure this area of organizational importance is coordinated effectively, Chapters will need a risk management framework.

Developing a financial risk management framework

STEP 1: Decide who will be responsible for risk management

Although risk management should be led by Chapter management, with the support of the Chapter's board, it is a good idea to have someone who is responsible for it across the Chapter. They will not manage all the risks but they will make sure there is an agreed upon policy and process, as well as coordinate risk management activity.

STEP 2: *Establish a policy*

Each Chapter will need to decide what is appropriate considering the complexity of the Chapter's structure and the range of programs offered. A risk management policy should be established that clearly sets out how things will be done. The policy should cover:

- How risk management is important to the Chapter's objectives
- How it links to the Chapter's culture and structure
- The process for identifying, assessing, recording, managing, reviewing, and reporting on risks
- Risk roles and responsibilities
- The Chapter's level of comfort with risk in certain areas

STEP 3: *Review and monitor*

If your Chapter is just getting started on a risk management policy, training may be needed for certain key staff. Once created and in practice, the policy should be reviewed from time to time so it remains up to date and appropriate.

Every Chapter should assign someone to be responsible for the risk management process. This individual should provide regular reports to the board as well as coordinate the assessment of any new activities.

STEP 4: *Communicate it*

The board should approve the policy, and then, working with the Organizational Leader, ensure that everyone knows about the policy and that it is accessible to the board and appropriate staff. The policy should be published in different formats and in different places to maximize exposure within the organization.

How to identify and evaluate risks

Identifying risks

The process of identifying risks generally begins with a simple brainstorming exercise. This exercise should focus on both internal and external risks. Those with operational responsibilities representing multiple levels of the organization should be involved in this exercise because they know the practical aspects of many risks. The results of the exercise should be documented.

Evaluating risks

Once the risks have been identified, they should be prioritized. Rank the risks in order of highest to lowest. In order to avoid overwhelming the process, select the top risks identified in the exercise described above.

The next practical step is to evaluate the top risks by asking a simple question, *"Are we comfortable with the way this risk is being handled?"* With this discussion underway, it is now time to complete a simple summary document of your risk management findings.

How to treat risks

Identifying risks alone is not enough. Now that you have identified and evaluated the Chapter's risks, your Chapter should decide what, if anything, must be done to reduce the likelihood of the risk occurring or minimize its harmful impact if it happens. A common way to approach this is to decide whether to ***Treat, Tolerate, Terminate*** or ***Transfer*** the risk.

For the most severe risks you will almost certainly decide to act. Considering what would cause the risk to happen, and the impact it would have on the Chapter, is the best way to decide what action to take. Various risks might have several causes so you might need to consider more than one course of action to address a risk. On the other hand, you might find that one action will address many risks.

It is not necessary to leap into action for every risk. If there is a fairly low likelihood of it happening, or the impact would be low if it did, then you might decide to 'tolerate' the risk and do nothing unless it becomes more serious.

Monitoring and reviewing risks

It is appropriate to conduct a comprehensive review annually and look at any incident and/or near miss activities. Even with the best risk management processes, risks will sometimes present themselves. This may be due to external events beyond your control or simply because you underestimated the likelihood of something happening. If a risk that you had identified occurs, your contingency plans should be put in place. After the situation is dealt with, organizational reflection is needed to help ensure you learn from the experience. Why did it happen? Could it happen again? What could you do differently another time?

Always communicate the learning to key people throughout the Chapter. Although it might be too late this time, others may be able to prevent similar issues in their work. This could also assist in managing the internal and external communications to demonstrate to stakeholders that you are an organization that learns from historical experiences.

Communication and consultation

Serious risks can have catastrophic consequences for the Chapter, so it is important that the right people in the organization know about risks and how they are being managed. Risks are generally managed at different levels within the organization. For risks that could have a severe impact, it is likely that Chapter management or the appropriate board committee will make decisions about what action to take.

As part of the risk management framework, criteria should be developed so that each individual knows when they need to "escalate" a risk response. The framework should also include an agreed-upon frequency for reporting to Chapter management and to the board committee. In most cases, risk reports should be sent to the audit committee of the board.

Expense and competing priorities

It may seem that the costs to administer a risk management framework are too high. However, a single incident can easily require significant Chapter financial resources, not to mention reputational damage and staff distraction. Starting the process previously described in this section does not require substantial budget outlays, and efforts can grow or change over time.

An effective risk management framework can provide reasonable assurance that a Chapter remains agile and responsive in the face of uncertainties.

Risk Management Framework

B. Internal Controls

Nonprofits are no different than any for-profit business; they too need internal controls to protect their resources and reputation. Too often, nonprofits, particularly small ones, either believe they do not need to have internal controls as they are not seen as a critical need or the organizations are simply unable to afford the time and/or expense of developing and implementing these controls.

When resources are scarce, organizations tend to maximize those resources by focusing them directly on programs. Unfortunately, this can have a negative effect on critical infrastructure, support functions and controls. When this is the case, risks can quickly develop into crises that require even greater financial, staff and board resources, and may expose the organization to internal and external scrutiny.

Beyond requiring organizational financial and staff resources, crises may put your Chapter's reputation at risk. The RMHC Brand—or reputation—is one of your Chapter's greatest assets. When one Chapter's reputation suffers, it does not just affect that particular Chapter, it also affects the communities it serves, neighboring Chapters and even Chapters around the world. It is possible to tailor and scale controls to address control risks within the organization in a cost-effective manner.

Internal control is defined as the process put in place by the Chapter's board, management, or other personnel designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance of the Chapter.

- Operations objectives define the effectiveness and efficiency of an organization's operations, including operational and financial performance goals, as well as safeguarding assets against loss.
- Reporting objectives define the internal and external financial and non-financial reporting that may encompass reliability, timeliness, transparency, or other terms as set forth by regulators, standard setters, or the non-profit organization's policies.
- Compliance objectives define the non-profit organization's adherence to required laws and regulations. There are many laws and regulations to which a non-profit organization is subject, including those dictated by federal tax-exempt status, charitable solicitation activities, employment practices, privacy, and identify theft.

These fundamental concepts are reflected in the definition of internal controls

- Established to support the achievement of organizational objectives—operations, reporting and compliance.
- A defined process consisting of ongoing tasks and activities; the framework is a means to an end, but does not represent the end in itself.
- An infrastructure that is affected by people—not merely by policies and procedure manuals, systems, and forms. People at every level of the organization and the actions they take will directly affect internal controls.
- Provides reasonable assurance—but not absolute assurance, to an organization's senior management and board of directors.
- Adapts to the structure of the organization—flexible in application for the entire entity or a particular subsidiary, division, operating unit, or business process.

It is important to remember that all employees play an important role in the adherence to the Chapter's internal controls. Strong controls can help detect or deter fraud and reduce the risk of errors or misstatements in financial reporting. Examples of control activities include specific procedures regarding the authorization, recording, processing, and reporting of transactions, as well as events.

Maintaining internal controls is a continuous process. To promote strong controls and strengthen systems, Chapter management can communicate the importance, relevance, and benefits of effective internal controls throughout the organization.

Benefits of internal controls

- To improve the reliability of financial reporting to help prevent and detect misstatements in financial statements, whether due to errors or fraud
- To safeguard the assets and resources of the organization; to prevent losses
- To standardize workflows and operating procedures to improve process efficiencies
- To communicate the boundaries of acceptable and non-acceptable business practices
- To promote a culture that values high ethical standards, honesty, and transparency
- To help the organization build and maintain a positive public image
- To demonstrate accountability as stewards of the organization's resources

Components of internal control

There are five interrelated components that make up an organization's internal controls according to the COSO model, which is recognized throughout the world as a significant standard for discussing internal controls. There is a direct relationship operations, reporting and compliance objectives and the components of internal control.

1 *Control environment*

The control environment, as established by the organization's management, sets the tone of an organization and influences the "control consciousness" of its people. Likewise, management of each Chapter establishes a local control environment. This is the foundation for all other components of internal controls. Control environment factors include: integrity and ethical values, competence, leadership philosophy and operating style, and the way management assigns authority and responsibility.

2 *Risk assessment*

Each Chapter must be aware of and address the risks they face. They must establish objectives. Risk assessment is the identification and analysis of relevant risks to achievement of the objectives. This forms the basis for determining how the risks should be managed.

3 *Control activities*

Control activities are the policies and procedures that help ensure management directives are carried out. Control activities occur throughout the Chapter, at all levels and in all functions. They include such activities as approvals, reconciliations of actual financial results to budget, separation of duties, and security of assets.

4 *Information and communication*

Communication systems enable the organization's people to capture and exchange the appropriate information needed to manage its operations responsibly. Internal communication is how information is disseminated throughout the organization. It enables staff to receive a clear message from management that control responsibilities must be taken seriously. External communication enables inbound communication of relevant information, and it provides information to external parties in response to requirements and expectations.

5 *Monitoring*

Monitoring is a process that assesses the quality of the system's performance over time. It is accomplished through ongoing activities such as review of operating and financial reports, comparison of data to physical assets, separation of duties, and authorization procedures. Monitoring can also be accomplished through separate evaluations such as internal and external audits.

Simple control activities for Chapters

- Cash receipts should be recorded immediately and deposited daily.
- Someone other than the person who signs checks should reconcile bank accounts monthly.
- The person(s) responsible for approving invoices should not be the same person(s) that signs checks or approves electronic payments.
- Payments to vendors should be issued only in payment of approved invoices.
- Check supplies should be kept under lock and key.
- The person responsible for the physical custody of an asset should not also have responsibility for keeping the records related to the asset.
- The person who has authority for placing employees on the payroll and establishing wage rates should not be the same person who signs checks.

Separation of duties

In any organization, one of the most important control activities is separation of duties. Duties are separated such that no one person has total control of a transaction from initiation to completion. For example, if one individual has the ability to establish a new vendor in the system and initiate a purchase transaction, while also having access to the accounting system to write checks and record the transaction, that individual could easily have an opportunity to steal from the organization. If that same individual also reconciles the bank statement, the theft is more likely to go undetected.

An internal control system is only as effective as the employees and board members who must comply with it. Employees and board officers throughout the organization should understand their roles in internal controls, the importance of supporting the internal controls system through their own actions, and encouraging respect for the system by their colleagues throughout the organization.

In smaller organizations, it can be challenging to design an effective process of separation of duties. If there aren't enough people within the Chapter to separate duties effectively, then others such as the board treasurer should be involved in the processes. The examples below can be used as a starting point for Chapters with just three or four individuals performing a majority of accounting and recordkeeping duties.

EXAMPLE 1: **Staff of three people**

Organizational leader:

- Sign important contracts
- Make compensation adjustments
- Sign checks
- Complete deposit slips
- Perform interbank transfers
- Perform analytical procedures
- Review bank reconciliation
- Review wire/ACH payments
- Review account activity

Accountant/other*:

- Approve payroll
- Process vendor invoices
- Mail checks
- Perform analytical procedures
- Prepare invoices for payment
- Disburse petty cash
- Open mail and log cash
- Receive bank statements

Accounting staff:

- Write checks
- Reconcile bank statement
- Record credit/debits
- Reconcile petty cash
- Distribute payroll

**Non-accounting staff such as administrative personnel can be trained to perform some of the less technical duties. The Chapter can also engage the board treasurer in these activities if necessary.*

EXAMPLE 2: **Staff of four people**

Organizational leader:

- Sign important contracts
- Make compensation adjustments
- Sign checks
- Perform analytical procedures
- Review wire/ACH payments
- Review account activities

Accountant/other* #1:

- Distribute payroll
- Open mail and log cash
- Disburse petty cash
- Mail checks
- Review bank reconciliation

Accountant/other* #2:

- Approve vendor invoices
- Perform interbank transfers
- Approve payroll
- Complete deposit slips

Accounting staff:

- Write checks
- Reconcile bank statement
- Record credit/debits
- Reconcile petty cash

**Non-accounting staff such as administrative personnel can be trained to perform some of the less technical duties. The Chapter can also engage the board treasurer in these activities if necessary.*

c. Insurance

Traditionally organizations view risk management as an activity that relates to managing negative outcomes and, thus, the tendency has been to focus on insurance as a reassurance to cover the financial and legal consequences.

As stated in the discussion about risk management, when "something" happens there will be an impact at some level on the Chapter. This impact could potentially result in a minor or major financial loss. Insurance transfers the cost of a potential loss to the insurance company in exchange for a fee, known as the premium. Insurance companies invest the funds securely, so they can grow, and pay out when there's a claim.

Insurance is one significant element of a Chapter's risk management program. The Chapter license agreement with McDonald's Corporation requires Chapters to have certain types and levels of insurance. Beyond the minimum requirements outlined in the license agreement, Chapter leadership, including management and board, must determine their comfort with the downside risk their list of threats (risks) presents. Depending on the comfort level, a Chapter will seek to buy more insurance. The most risk averse Chapters will ask, "How much insurance can we afford?" The less risk averse ask, "How great a misfortune can we afford?" In answering these questions, the following options should be considered; questions are listed in order of preference beginning with the least costly/risky.

- **Avoid.** Change the program or the facility so that the threat no longer exists; try to avoid risks whenever possible.
- **Transfer.** Often through contract, transfer the risk to a third party that assumes the costs should the threat occur.
- **Assume.** Accept the possibility of the threat as a normal part of doing business (typical for low-impact, high-frequency risks) and assume that risk.
- **Insure.** If the risk cannot be avoided or transferred to a third party and is too great (either impact or frequency) to assume, purchase insurance. (It should be noted that from a theoretical perspective insurance is a form of transfer).

In practice, these are very tough decisions to make. Ultimately, Chapter management will have to determine whether the benefit to the Chapter justifies the risk, whether the operating budget can afford the desired level of insurance, whether reserves can cover deductibles, and whether the board agrees to the proposed risk portfolio.[2]

An annual review

Once a year it is general good practice for the board of directors and the Organizational Leader to review the Chapter's license agreement to ensure there is compliance with outlined insurance requirements.

As part of all Chapters' license agreements with McDonald's Corporation, the following insurance coverage is required:

1. **Property insurance coverage** written on an 'all risk' basis and (if applicable) boiler and machinery insurance coverage
2. **Commercial general liability insurance** coverage providing limits of not less than five million U.S. dollars (US$5,000,000) per occurrence for bodily injury and property damage, or such other amount as McDonald's may approve
3. **Owned, non-owned and hired auto liability** (if applicable) with combined single limits of liability for bodily injury and property damage of at least one million U.S. dollars (US$1,000,000), or such amount as McDonald's may approve.

LIST CONTINUED ON NEXT PAGE

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4. **Directors and officers liability insurance** with appropriate limits
5. **Fidelity bond coverage** with appropriate limits
6. **Cyber liability insurance** with minimum limits of one million U.S. dollars (US$1,000,000)

The following are not required, however strongly recommended:

1. **Umbrella form excess liability** with limits of at least one million U.S. dollars (US$1,000,000), or the local currency equivalence thereof
2. **Innkeeper's liability** with limits of one thousand U.S. dollars (US$1,000), or the local currency equivalence thereof, per guest

Required insurance

The following provides a brief introduction to each of the required insurance types.

General liability insurance

A general liability policy insures the Chapter against classic slip-and-fall scenarios. (It's sometimes also called a "commercial general liability" or "CGL" policy.) The Chapter will be covered for damages that it is ordered to pay to someone (such as a guest, vendor, or volunteer) who is injured on the organization's property. These types of policies do not apply to the Chapter's employees, who are covered separately by workers' compensation insurance.

Property insurance

Consider what might be lost in the event of a natural disaster (e.g., earthquake, flooding, ice storm), operational event (e.g., fire) civil unrest or criminal activity (e.g., vandalism, robbery). Your Chapter's selection of a property insurance policy should cover those risks; the policy should cover the building(s) where you deliver your program, as well as :

- Fixtures (lighting systems, cabinets, carpeting)
- Equipment (engineering components, guest amenities, kitchen appliances, bathroom fixtures, telephones)
- Office furniture
- Guest bedroom furnishings (mattresses, furniture)
- Computers and accessories (monitors, modems, printers)
- Inventory and supplies.

Most basic policies will cover these items—but at what financial amount? Make sure the policy covers the cost to actually replace the property, instead of paying its market value as a used good immediately before the damage.

Ask your agent or broker to carefully explain your deductible (how much the Chapter will be out of pocket before the insurance coverage begins) and what types of losses or property damage will not be covered under the policy. For example, flood insurance is usually sold separately, and your Chapter may have to pay extra to have theft coverage included.

Auto insurance

If your staff or volunteers use any vehicles (including their own) for Chapter activities, auto liability insurance is needed. Check the regulations in your country or region to determine if laws or ordinances require you to purchase more than what is required in the Chapter license agreement.

The insurance will pay for injuries a driver causes to other people or property while carrying out the activities of the Chapter. Local law may also require additional auto insurance, including personal injury protection (PIP) and uninsured/underinsured motorist (UM/UIM) coverage.

Product liability insurance

If your Chapter sells products to the public, consider buying product liability insurance. It may protect your Chapter from lawsuits by customers claiming they were hurt by an unsafe or defective product you provided.

Directors and officers insurance

These policies are also commonly called "D&O Insurance. They are available in most countries and protect your board against liability in many, but not all, cases. In the United States, for example, Chapters need to make sure that their D&O buys them more protection than federal and state volunteer protection statutes already in place. No D&O insurance will protect the board in cases of intentional fraud or taking actions that are not "normal and customary" actions. For example, if someone falls on the front step of your Ronald McDonald House and sues for damages, the board members, in nearly all cases, will be covered. If, however, the staff had pointed out that those steps were dangerous and the board did not act to get the steps fixed, that would not be "normal and customary" and the board members could be personally liable.

As with any insurance coverage, it is important to understand what kind of claims are and are not covered by a D&O policy. Typical exclusions include damages arising from criminal or fraudulent behavior and claims brought by one director against another. Make sure the policy does not exclude employment-related claims, which are the most common ones filed against directors and officers.

Professional liability insurance

Similar to D&O coverage, professional liability coverage (also sometimes called "errors and omissions" or "malpractice" insurance) protect against liabilities resulting from mismanagement of the organization, as well as workplace-related claims such as discrimination or sexual harassment. It covers not only directors and officers but also staff, volunteers, and the Chapter itself.

Cyber insurance

Most businesses are insured in a general liability policy covering bodily injury and property damage resulting from their operations. However, these policies will not cover your liability to others for inadvertent release of their confidential personal information, such as social security or credit card numbers, from a database for which the Chapters is responsible.

This type of personal information may be found on your computer servers, laptops, tablets, and smart phones and it is vulnerable to "hacking," viruses, and other types of fraudulent access, theft, and unauthorized release. More than half of all small businesses have experienced a breach of this type.

A cyber insurance policy can pay for legal fees associated with a data breach as well as the cost to notify customers and provide them with credit monitoring services, to hire a public relations firm to assist with "damage control," and to recover damaged data and repair the compromised computer system. Policies are available to address the needs of both small and large organizations and premiums can be moderate.

Suggested Chapter strategies

> **Invite your underwriter** in for an annual walkthrough of your organization's programs and discussions about its activities and plans. The underwriter's suggestions for changing your facility and operations can usefully inform both operational and strategic planning. Moreover, their feeling of partnership may lead to lower rates!

> **Consider the impact of weather conditions** on children and families served at your Chapter's House, Family Room, Ronald McDonald Care Mobile or other program site. There may be relatively inexpensive remedies for these risks, such as covering the entrance to your Chapter's House to keep it dry in the rain and snow.

> **Have a disaster plan** and rehearse it. Staff should know where to go, where to direct the children and families being served, and whom to call. There may be training or operational actions that forestall an emergency or bring it under control much faster.

HOT TIPS CONTINUED ON NEXT PAGE

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> **Increase insurance deductibles.** For less frequent threats, management and the board may prefer adjusting the program slightly and paying more in the event of a problem, rather than paying a regular premium.

> **Develop financial reserves.** In an ideal situation, losses not covered by insurance should be covered by unrestricted reserves established by the Chapter and funded annually.

D. Compliance with Internal Policies and External Laws & Regulations

The ability of an organization to achieve its long-term strategic objectives is enhanced greatly when management is invested in the risk management program.[3] For the risk management program of any organization to be effective, there must be compliance with internal policies, as well as external laws and regulations.

Chapter management should assign someone within the Chapter to be responsible for monitoring compliance with internal policies and external regulations. In most cases this would be the Chief Financial Officer (CFO). It's important to note that all Chapters, regardless of size, have a process in place to monitor compliance regularly.

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1. Institute of Risk Management. *Risk Management for Charities: Getting started: Supplementary Guidance.* London, 2014.
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Financial Planning and Budgeting

STRONG FINANCIAL MANAGEMENT REQUIRES AN ORGANIZATION to be deliberate about planning for both its long-term financial goals and immediate financial health. Financial planning begins with the Chapter's strategic plan and takes a broad look at the Chapter's financial operations and long-term goals. A strong financial plan will help Chapter leaders make sound decisions not only in today's terms, but also in terms of sustainability for the future.

The long-term financial plan is the foundation for the annual operating budget. A board-approved annual operating budget is one of the fundamental building blocks of strong financial management. As important as the annual operating budget is, however, it fails to plan for and monitor the Chapter's ability to meet its cash requirements. Therefore, the financial planning process must also include a projection of the Chapter's cash needs. To complete the planning process, the Chapter must also consider its capital spending plan and its impact on cash resources.

The Chapter's capital spending plan should incorporate any capital requirements necessary for planned new or expanding RMHC programs. When establishing a new RMHC program or expanding an existing one, there are several finance-related requirements outlined in the 'RMHC Development/Expansion Approval Process' documents. Standard 3.4 below directly relates to requirements found in the RMHC Program Development/Expansion Approval Process documents.

STANDARDS

3.1 ***The long-term financial planning process involves relevant Chapter stakeholders to ensure there is a collective approach and shared responsibility in achieving the overall financial health and sustainability of the Chapter.***

3.2 ***There is an annual budget process that produces board-approved operating and capital budgets developed from the Chapter's long-term financial plan.***

3.3 ***There is a cash flow projection developed from the budget, at minimum on an annual basis, to ensure the Chapter can meet its financial obligations.***

3.4 ***When establishing a new program or undergoing a capital expansion, the Chapter meets the following requirements:***

a ***Submission of a balanced operating budget as outlined in the RMHC Financial Modeling Tool.***

b ***Demonstration of 80% of capital funds raised before RMHC Global approval for the construction phase of a new or expansion of a Ronald McDonald House.***

c ***Demonstration of 50% of capital funds raised before RMHC Global approval for the construction phase of a new Ronald McDonald Family Room.***

d ***Demonstration of funds raised equal to three years' operating budget before RMHC Global approval for the manufacturing phase of a new Ronald McDonald Care Mobile.***

Throughout the Guide, these icons highlight important information, reference other RMHC guidebooks, and provide links to additional resources available to download.

Logon to www.rmhcradar.org to access RMHC hyperlinks.


Activity


For more information *(hyperlink)*


Hot tips


Quick reference


Tools and templates to download *(hyperlink)*

GUIDELINES

A. Long-Term Financial Planning

A long-term financial plan is a set of projections covering a future period of three to five years. The plan should be based on all current programs, as well as future programs that have been approved at the time the plan is developed.

Chapters that engage in long-term financial planning realize many advantages, including the following:[1]

1. Better positioned to integrate the strategic plan with the annual operating budget, realizing greater benefit from the strategic planning process and ongoing alignment with the operating budget.
2. Demonstrated evidence to banks, investors, foundations, and donors that the Chapter is a well-managed organization, highlighting RMHC values of operating with transparency and accountability.
3. Better able to determine a reasonable growth rate for their activities and programs.
4. Contribution to the fulfillment of the board's fiduciary responsibility for proper fiscal oversight of the Chapter's financial activities.
5. Better able to forecast its organizational future and deliver continuous service to the community.
6. Leveraging its financial plan as an outstanding fundraising tool when approaching foundations and corporations for grants and contributions. The financial plan helps to articulate the Chapter's vision, establish its credibility and instills confidence in donors.

The long-term financial plan is the starting point for a Chapter's annual action plan, and as such will be a valuable evaluation tool in measuring actual performance against the plan.

The long-term financial plan contains several important elements:

- Tying the strategic plan to financial resource requirements.
- Identifying future period surpluses or deficits.
- Determining funding needs essential to planning fundraising appeals.
- Identifying seasonal and cyclical cash flows.
- Bringing together the Chapter's sources and uses of funds needed for operations, investing, and financing.
- Helping to build future reserves for the Chapter to help ensure financial sustainability.

The following is a step-by-step approach to long-term financial planning

STEP 1: **Review**

- The first step in developing a long-term financial plan is to look at the Chapter's history. Review the most recent three to five years of financial statements. Using these statements look at historical trends. What are the revenue components of the Chapter? Have the revenue sources changed over time?
- In addition to looking at revenue components and noting how they may have changed over time, it is important to look at the expense components. Expenses related to staff compensation will generally be the largest expense element for most Chapters. In addition to the direct payroll expenses incurred by the Chapter, the cost of employee benefits must be considered. This includes health insurance, retirement plan expense, and all other benefits the Chapter offers to its employees.

STEPS CONTINUED ON NEXT PAGE

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STEP 2: **Assess**

- Next, look at the costs by function (Program, Fundraising, Management and General). It is important to know how much the Chapter is investing in each program operated by the Chapter. This should include both the direct cost of the program, as well as the "overhead" or supporting costs needed to operate the programs.
- Then look at the fundraising costs. How much does it cost the Chapter to raise additional contributions? This becomes important when the contribution revenue projections are calculated. It is only the contribution revenue, after the cost of raising those contributions that will be available to fund program and other supporting expenses in the future.
- Along with the fundraising costs, the management and general expense of operating the Chapter needs to be considered. These are part of the supporting costs that every Chapter must incur in order to develop and operate quality programs.
- The historical trends must be identified before developing the financial projections for the next three to five years, but equally important is gaining an understanding of the environment in which the Chapter operates.
- The process referred to as environmental scanning can help the Chapter's management see emerging trends in the broader environment in which the Chapter operates. What are these trends and how might they impact the operations and finances of the Chapter? In this process the economic conditions and demographic changes that might impact the service delivery systems or program beneficiary needs can be considered. Also, it is important to be aware of and understand the competitive landscape in the philanthropic community. Failure to consider these trends and changes cannot only result in poor long-term financial plans, but it could lead to financial crisis in the organization.

STEP 3: **Project**

- Once the historical trends and environmental scanning is complete, it is time to develop the long-term financial projections. The projections are based on current and approved future programs. The long-term financial plan projections should also incorporate the current capital budget, as well as management and board policies that focus on investments, debt and liquidity needs.
- The next step in the process is to develop a set of assumptions that are based on the goals and objectives of the Chapter as stated in the strategic plan. The assumptions will drive the long-term financial projections, and include balance sheet items, as well as the revenue and expense, cash flow, and capital expenditure needs of the Chapter within the planning horizon. Once the assumptions are developed, the three- to five-year financial projections can be constructed.

STEP 4: **Evaluate and update**

- A good long-term financial plan is an ongoing and evolving process. It should be updated on a rolling annual basis. This means evaluating the year just completed, and adding a new final year to the plan. This process will allow for adjustments or revisions to the assumptions and to the financial projections in the revised and extended long-term financial plan.

Using a financial model

A financial model is a financial representation of how the Chapter operates. It is constructed in a way that it can be used productively to simulate the real world.[2] This more dynamic portrait of the Chapter's financial future can add value to the more static financial projections referred to earlier. The financial model illustrates and identifies the following:

- Asset requirements for growth (or scaling back), along with the need for financing those asset requirements by projecting key elements of the balance sheet.
- The relationships between the various financial accounts in a financial spreadsheet model.
- The true effects of revenue and expenses, liabilities, and net asset changes on cash by backing out noncash items.
- Knowledge and information gaps that must be addressed for the Chapter to have a better understanding of its financial interrelationships and cash flows; some of these information gaps will be discovered in the process of modeling.
- View the financial position, funding need, and revenue coverage of expense changes when a single input to the model changes in value. This "what if" scenario analysis function is the most valuable feature of a financial model.[1]

RMHC Long-Term Financial Planning Tool

B. Preparing the Annual Operating Budget

Financial planning should include annual budgets for operating, cash, and for capital expenditures. Creating an annual operating budget is a familiar task, however, though perhaps less familiar, annual cash and capital budgets are important elements of the Chapter's financial planning process. The annual operating budget process should be documented, with tasks, responsibilities and deadlines clearly stated.

A good budgeting process will:

- Engage those who are responsible for adhering to the budget in the creation of the budget
- Allow time for the board finance committee to participate
- Provide adequate time for research, review, feedback, and revisions before the budget is ready for presentation to the full board
- Incorporate strategic planning initiatives and the long-term financial plan
- Include realistic projections for income and expense
- Be income-based (that is, in general expenses do not exceed the realistic income projections)
- Be driven both by mission priorities and fiscal accountability

A well-constructed operating budget will demonstrate the Chapter's commitment to fulfilling its mission. It should be based on reliable income projections and expense projections, should be well-researched, conservative, and thorough. Those building the budget will understand what components of the budget are fixed, and which are more flexible or variable.

Typically, the budgeting process should begin at minimum three months before the end of the fiscal year to ensure that the board of directors has time to review and approve the budget before the start of the new year.

Developing the operating budget

The Controller, Chief Financial Officer (CFO) or Board Treasurer should attend to the organizational and procedural prerequisites before launching into the actual budget development. The individual leading the budgeting process should ensure that a comprehensive system is in place that provides needed information to all individuals participating in the creation of the annual operating budget. This includes the budget assumptions, organizational goals, performance data and standards, and organizational plans that impact the operating budget.

This is also a good time to remind all participating in the budget process that the operating budget sets out the Chapter's plan for the next fiscal year, and that it supports the strategic plan and the long-term financial plan.

The budget philosophy includes the approach that will be taken in the preparation of the budget, the format that will be used, and the "bottom-line" target for the operating budget.

- A top-down budget approach describes the budget process where Chapter management gives the directives for setting the operating budget for the next year; for example the budget needs to be balanced.
- A bottom-up approach, on the other hand, begins with Chapter staff outlining what is needed from an operational perspective.
- Ideally a combination of a top-down and bottom-up approach is used when building an operating budget.
- A combination of both approaches acknowledges this is an area of work that needs an iterative approach and dialogue across all levels of the Chapter.

Budget format

- As organizations grow, a sub-unit budget for each function, including programs and supporting services may be desirable.
- The functional budgets detail revenue and expenses for each of the major functions in the Chapter (programs and supporting services).
- Regardless of the budget format used, a consolidated budget should be developed. The consolidated budget presents the "bottom-line" target and is useful as a check and balance to help prevent overspending.

Revenue budget

The revenue budget should be determined before work starts on the expense budget. By starting with the revenue budget, the management team gets an idea of the amount of revenue potential for the upcoming year. It also helps to eliminate the temptation to make the revenue budget equal to the amount needed to cover anticipated operating expenses.

The revenue budget should take into consideration the economic climate, and consider such things as the unemployment rate, the performance of the stock market, and the condition of the general economy. These issues will not only affect the level of potential contributions, but it may also affect the return on long-term investments for those Chapters with endowments or other investment portfolios.

Revenue projections should also consider the Chapter's ability to secure grants from foundations or governmental agencies. The history of grant income will be helpful, but the future availability of grants and the competition from other organizations must also be considered.

The budget should consider revenue sources from fundraising programs, grants, or any other revenue source that may be available to the Chapter. All sources, even minor ones, should be considered in preparing the revenue budget.

Expense budget

Once revenue sources have been identified, the management team should focus on the expenses needed to operate the Chapter for the upcoming year. All program, management and general, and fundraising expenses should be considered. Again, it should be emphasized that a good budget is the result of good planning. This would suggest that the organization's leadership has a good idea of what they want to accomplish and the programs they will offer during the budget period.

When developing the budget one should consider inflationary increases, changes in the environment that may impact expenses, anticipated program changes, and projected changes in staff compensation, including fringe benefit costs. Remember, employee-related expenses are usually more than half of all the Chapter's operating expenses and should be estimated carefully. The Chapter should also consider any required debt payments in the upcoming year.

Balancing the budget

Once the revenue and expense budgets are complete, management must see that the budget is "balanced." At a minimum, this means there is sufficient revenue identified in the budget to cover the anticipated expenses needed to accomplish the goals and objectives of the Chapter for the fiscal year. However, it is good practice to budget for a "surplus" if possible to create or add to the Chapter's reserves. This can be accomplished by adding a "contingency" line to the expense budget if it not desirable to show a "surplus" in the budget's "bottom-line."

Budget approval

After the operating budget is approved by Chapter management, it will be presented to the finance committee of the board of directors. The finance committee has the responsibility to review the budget to ensure that it is a reasonable plan to reach the goals and objectives of the Chapter for the budget or fiscal year. Once the finance committee has completed its review, the operating budget will be presented to the full board of directors for final approval.

Budget variance reports

The board-approved operating budget can be thought of as the first step of budgetary control. If properly prepared, the budget is a projection of reasonably attainable operating results. With a budget in place, the Chapter can regularly compare actual performance to the budget plan. This is generally accomplished through monthly budget variance reports. If a variance to plan is reported, management can take corrective action to bring the Chapter back to the budget plan.

10 Step Annual Budgeting Checklist

c. Preparing Cash Budgets

Though the operating budget is an important planning and control tool for the operations of any Chapter, it alone does not contemplate the financial needs or monitor the Chapter's ability to meet it cash requirements. Generally, it is assumed that if the operating budget is balanced, all is well. However, cash is often received and spent at different times which could expose the Chapter to cash shortfalls during the year.[3] For instance, if the majority of the Chapter's donations come in at the end of the year, but expenses are incurred throughout the year, there is a mismatch of when the cash is coming in versus going out. In this scenario, the Chapter would have to ensure that there is sufficient cash to cover expenses throughout the year and consider whether there is a need to liquidate short-term investments or borrow funds.

The cash budget differs from the operating budget in purpose: simply put, it identifies the cash available to the Chapter at various points in the future.

When setting up or establishing the cash budget, several formats can be used to display the cash flows. Since most Chapters prepare the statement of cash flow for the annual audit, this would be one format to consider for the cash budget. While the statement of cash flows works well for a consolidated annual projection, it does not give management important information about cash flows on a monthly or daily basis.

An alternative method of presenting the cash budget would be to list each revenue and expense line of the operating budget. Adjustments are then made to convert all lines to a cash basis by removing noncash items, such as depreciation expense. Restricted cash flows in and cash flows out, and capital expenditures are also considered in the cash budget.

The cash budget shows a projected cash balance at the end of each month. This gives management the information needed to either invest short-term excess cash or find cash from other sources to use for operations during the months where insufficient cash balances exist.

The cash budget also provides a tool for monitoring actual cash flow by month. If the actual cash flow results are different than projected amounts in the cash budget, management can take corrective action when necessary to ensure that cash is available for the day-to-day operations of the Chapter.

Cash Flow Projection Tool

d. Preparing Capital Budgets

A capital budget is generally thought to be the process of planning expenditures of assets with expected returns beyond one year.[4] The capital budget relates to the Chapter's financial position, its assets, liabilities, and net assets, and setting targets for these areas. We might say that the capital budget is focused on the balance sheet (Statement of Financial Position), while the operating budget is focused on the activities found on the income statement (Statement of Activities).

When speaking of the capital budget, consider a financial concept known as capital structure. All Chapters have a capital structure, that is the mix of liabilities and net assets that fund long-term or fixed assets. Strong financial management requires that each Chapter understand its capital structure and to make deliberate decisions about setting and reaching its long-term financial goals.

These long-term goals as identified in the capital budget might include building a new or expanding a current Ronald McDonald House program. It may also include financial stability targets (such as building an operating reserve or eliminating a deficit), or strategic targets (such as building a fund to support

program initiatives that are identified in the Chapter's strategic plan).[5] Capital budgets often require a funding plan separate from and in addition to the operating budget. This funding plan can include a capital campaign as well as other funding strategies.

There are several steps in the capital budgeting process that Chapter management should follow:

- The capital needs of the Chapter should be analyzed. This should result in a list of projects that are important to the organization, along with a projected timeline and a set of project priorities. The list should contain building projects, including maintenance and repair that will be required for current buildings, and program infrastructure investments that need to be made in the future. The capital budget is a planning and control document, and like so many such documents needs to be updated on a regular basis.[6]
- The capital budgeting process will assign cost estimates to the various projects in the capital budget plan. The need for precision on cost estimates varies. During early iterations of the capital budget, cost estimates can be approximate. As the project takes shape and architects and planners provide more details about the project, then estimates become more detailed. If your Chapter operates a Ronald McDonald House program, the RMHC Property Reserve Study conducted for each of these programs is an excellent resource for this planning process.
- Just as cost estimates take shape through various iterations of the capital budget plan, project timelines also go through several planning iterations. Availability of funding or the Chapter's ability to absorb debt service may alter the original timeline, which is based on priorities, and on project cost estimates.
- Project financing comes in many forms. Donors may give money toward capital projects. Government agencies may make appropriations to finance capital projects, or the Chapter may look to some form of debt financing.
- The Chapter should test the feasibility of the capital plan and evaluate its risk(s). The costs of the capital plan must be integrated into a long-range financial forecast to determine financial feasibility.

RMHC program development financial requirements

To establish a new or expand any of the three RMHC Core programs (Ronald McDonald House, Ronald McDonald Family Room and Ronald McDonald Care Mobile) RMHC Global requires Chapters to follow an approval process. The steps required as part of this process are set out using the following six key phases:

PHASE	*PURPOSE*
Exploration process	Assessing overall need
Organizational readiness	Ensuring a sound infrastructure
Business planning	Demonstrating program sustainability and support
Program production	Obtain RMHC Global approval for construction
RMHC licensing and grant support	Completing RMHC Legal agreement process
Program launch	Providing the program to children and their families

Throughout these phases there are a number of financial management steps. These steps can be found in the RMHC Program Development Approval Process Documents (see link on next page).

These financial management steps include:

- Confirmation that the Chapter is current with all RMHC Global, country, province and/or state financial and tax reporting requirements,
- Completion and submission of the RMHC Organizational Assessment Tool,
- Demonstrated compliance with McDonald's and RMHC License standards,
- Completion and submission of a Financial Plan, including an initial RMHC financial modeling tool with capital and projected operational costs, and fundraising plans for approval, and
- Submission of a final RMHC financial modeling tool, once Chapter cash or firm pledge upfront requirements are realized.

RMHC Program Development Approval Process Documents

RMHC Financial Modeling Tool for Capital Expansion

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Financial Accounting, Reporting and Metrics

ENSURING THAT THE HIGHEST STANDARDS OF ACCOUNTABILITY AND transparency are in place is essential to establishing and maintaining the trust of donors and the public at large. Clear, consistent, and standardized financial reporting is another demonstration to our stakeholders of our commitment to excellence. In a competitive charitable marketplace, nonprofits around the globe are facing increasingly stringent reporting requirements, and are compelled to meet the rising expectations of donors and partners.

The RMHC system, as a whole, has a collective responsibility to track and report consistent, accurate, and reliable data. Not only will this process facilitate informed management decisions; it will also help ensure compliance with internal and external financial reporting requirements, and will create a basis for benchmarking amongst Chapters. As in all facets of RMHC operations, the ability to benchmark within the system facilitates the sharing of best practices, and leverages the strength of our collective resources. In addition, a consistent financial reporting basis will facilitate the production of accurate aggregated data, and will contribute to a stronger united voice for fundraising efforts, which will in turn help us carry out our mission.

STANDARDS

4.1 ***There is a system in place that tracks and produces accurate and timely financial data to facilitate informed management decisions and meet internal and external reporting requirements.***

4.2 ***There is compliance with the local country's generally accepted accounting principles (GAAP) and all other financial requirements as outlined in the Chapter's license agreement with McDonald's Corporation.***

4.3 ***Annual board-approved, audited financial statements, including a Statement of Functional Expenses, are completed and submitted to RMHC Global through RADAЯ annually, no later than 8.5 months after the end of calendar year (September 15).***

4.4 ***The Chapter is in compliance with its reporting obligations to government agencies (local, state, provincial, and national) and with other organizations where there is a contractual agreement requiring Chapter financial information.***

4.5 ***Annual RMHC financial metrics are calculated from the audited financial statements and submitted to RMHC Global through RADAЯ no later than 8.5 months after the end of calendar year (September 15).***

Throughout the Guide, these icons highlight important information, reference other RMHC guidebooks, and provide links to additional resources available to download.

Logon to www.rmhcradar.org to access RMHC hyperlinks.


Activity


For more information *(hyperlink)*


Hot tips


Quick reference


Tools and templates to download *(hyperlink)*

GUIDELINES

A. Selecting and Implementing an Accounting System

An accounting system is the foundation of all Chapters' business operations. The accounting system provides key data for developing, managing and evaluating the programs and support systems of the Chapter. In this context, we are referring to the structure and methodology of recording business transactions as the accounting system.

The Chapter's accounting system should be built like a pyramid. At the base of the pyramid is the raw financial data generated by the Chapter's business operations. The higher levels then build on the Chapter's activities to provide groupings and summaries that become the reports used by Chapter management to make decisions about the Chapter's future.

Most of the information that goes into the accounting system consists of transactions. Every Chapter will be faced with two types of transactions: those that result in a business exchange, and those that are created by an accounting event.

The majority of the Chapter's transactions will be business exchanges. For example, the finance department needs new computers. The Chapter purchases new computers, and pays for them with cash. This is a "give-and-take" example of a business transaction. The second type of transaction, such as depreciation, does not involve the give-and-take of a business transaction, but does need to be recorded. When the Chapter records its depreciation expense, there is no give-and-take business transaction, but the Chapter recognizes that "consumption" of an asset occurred. The depreciation transaction shows that consumption by recording an expense and a reduction of the value of an asset.

Once a transaction takes place, the next step is to classify the various elements of the transaction. All transactions have two or more components to them. Classifying these components is based on the accounts in the system. Deciding how to arrange the accounts used in classifying transactions is an important first step in creating an accounting system.

The arrangement of the accounts in the accounting system is known as the Chart of Accounts.

There are five broad types of accounts in any accounting system:

1. Assets
2. Liabilities
3. Net assets (equity)
4. Revenue
5. Expenses

The Chart of Accounts is a list of all the account classifications that exist in the Chapter's accounting system. In effect, it is the "road map" the accounting staff uses to decide where transactions should be recorded.

Designing the Chart of Accounts is not easy, since it requires knowledge of the Chapter's business operations and discussions with the Chapter's senior leadership team. Even so, it is necessary to take this step in building an accounting system that will provide the information and reports necessary to manage the Chapter and add value to the ongoing evaluation of its activities.

Both the Chart of Accounts and the accounting system platform may be designed to support the Chapter's operations, as long as they are crafted and scaled to meet the Chapter's needs.

Although the Chart of Accounts is the core of the accounting system, the particular format of the document is not carved in stone. Accounts can be added to the Chart as the needs of the Chapter change.

The general ledger contains the accounts listed in the Chart of Accounts, and is the repository of all financial transactions that take place within the Chapter. The general ledger is the source document for the preparation of internal and external financial reports.

If the Chapter decides that a new accounting system is needed, they should consult with their finance team or outside accountant. Programs like Quick Books may be fine for some Chapters, while larger Chapters with more complex reporting requirements may need to look for a more robust program. It would be advisable for the finance and technology teams to work together to articulate the standard requirements or specifications for the computer software and the process needed to search for the appropriate program to meet the Chapter's needs. Smaller Chapters that rely on external accountants and/or technology support will seek input from and facilitate collaboration with and amongst the external consultants.

B. Complying with Generally Accepted Accounting Principles (GAAP)

Generally accepted accounting principles, commonly referred to as GAAP, are a common set of accounting principles, standards, and procedures that organizations follow when they compile their financial statements. It is important to note that complying with local GAAP is a standard and a condition of all Chapter license agreements with McDonald's Corporation.

GAAP specifications include definitions of concepts and principles, as well as industry-specific rules. The purpose of GAAP is to help ensure that financial reporting is transparent and consistent from one organization to another. GAAP improves the clarity of the communication of financial information.

GAAP specifications are developed through a comprehensive, independent, and open process that encourages broad participation, objectively considers the views of all stakeholders, and is subject to rigorous oversight. Therefore, GAAP-based financial statements faithfully represent transactions and enable an organization to appropriately report its performance and financial position.

The common GAAP framework allows for an easier comparison of financial statements across the broad, diverse, nonprofit sector. Without GAAP, it would be difficult for external users to benchmark a nonprofit organization's performance against other organizations. Further, GAAP financial statements are commonly understood by lenders, donors, grantors, rating agencies, accrediting bodies, and regulators.

Lastly, through GAAP reporting, Chapters may realize greater flexibility in the types of resources available to them. They also may find that a larger number of donors, grantors, and lenders have confidence in the organization's financial reporting, and may be willing to provide resources.

All Chapters are required to submit, on an annual basis, financial statements audited by an external audit firm to RMHC Global; the submission must include an opinion letter from the auditors, stating that the financial statements are in accordance with the Chapter's local GAAP. While this opinion letter is not required within every country, it is requirement of the Chapter's License Agreement. The audited financial statements must contain a Statement of Financial Position (Balance Sheet), a Statement of Activities (Income Statement or Statement of Operations), a Statement of Cash Flows, and a Statement of Functional Expenses, even if these statements are not required by local GAAP. See Section E, *RMHC Financial Reporting Requirements,* for guidance on tracking the data required and on preparing the Statement of Functional Expenses.

c. Internal Reporting

Internal reports are those used by the Chapter's management, staff, and board.

Internal reports should meet three essential criteria. They must be:

1 **Relevant**
2 **Reliable**
3 **Readily available**

Key to meeting this challenge is to develop a road map or schedule of important operating indicators to be used by the board of directors and management selected to drive the strategic success of the Chapter. The schedule should also identify internal reports that are produced on a regular basis, which include a clear definition of who is responsible for issuing the reports, the audience for the reports, and what the reporting period is. This schedule of internal reports should both provide structure to the reporting process, and help maintain a strategic focus for the Chapter.

Internal reports should align with metrics identified by the board of directors and management in the annual and long-term planning process. The success of these reports will be measured by their use in current and future decision making.

The internal reports developed for the Chapter should be built on principles of consistency, appropriate to business and user needs and flexibility. The principle of consistency implies that reports should contain data that is consistent with the Chapter's practices and programs. Although external auditors do not audit internal reports, they must be accurate and consistent with the general ledger. Over time, consistent reports will give the board and management valuable information that can aid in the evaluation of its activities and the decision-making process.

In addition to consistency, internal reports need to have adequate detail to provide the user with appropriate information that allows for quick identification of trends in the important strategic objectives of the Chapter, and at the same time provide the ability to review critical information more in depth, as needed by the user. The use of summarized data, charts, and graphs will be helpful in giving board members and management the information needed to make good decisions that are consistent with the strategy of the Chapter.

Finally, the internal reports should be flexible. The Chapter's portfolio of internal reports should be subjected to a formal review to ensure that they are providing the information needed by the board and management. When necessary, the reports should be revised or enhanced.

As stated previously, when developing internal reports, the Chapter must consider:

- Who will use the information
- What the information will be used for, and
- How often the information will need to be produced to be relevant

Reports should be customized to the specific needs of the Chapter, and must be developed in the context of its strategic plan. There are, however, some standard internal reports that represent the type of reports relevant to most nonprofit organizations. Several of these reports, described in the following Quick Reference section, can be used for both internal and external financial reporting.

Relevant internal reports

Statement of Activities (Income Statement)

The Statement of Activities is also known as the Income Statement or the Statement of Operations. The Statement of Activities shows the results of the Chapter's financial activities for a period of time. It lists all the Chapter's revenues and expenses, as well as its resulting profit or loss for the period reflected on the statement. This resulting profit or loss is known as the change in net assets.

Year-to-date revenue and expenses are included on this report and compared to budget projections. This report helps Chapter management to determine if the Chapter is on target with its budgeted revenue and expenses; hence, variances greater than established ranges should be highlighted.

Statement of Functional Expenses

The Statement of Functional Expenses reports expenses in more detail than what is included on the Statement of Activities. The Statement of Functional Expenses reports expenses by the nature, or type, of expense (such as salaries, rent or professional fees), and by function (program services, fundraising, cost of direct benefits to donors, or management and general). The Statement of Functional Expenses reports the cost of each of the Chapter's programs, as well as its fundraising and management and general activities.

All Chapters are required to prepare the Statement of Functional Expenses for RMHC financial consistency purposes, even if not required by local GAAP. More information is provided below in Section E, *RMHC Financial Reporting Requirements*.

Statement of Financial Position (Balance Sheet)

This report shows the Chapter's financial health at regular intervals, by listing the types and amounts of its assets, liabilities, and net assets (assets minus liabilities). Although it may not be necessary to produce a complete Statement of Financial Position each month, key elements of the balance sheet, such as cash and investment activities, should be reported each month.

Cash flow reports

Since cash is so important to Chapter operations, monthly cash flow reports should be prepared. These reports show cash inflow and cash outflow, along with monthly cash balances. These reports should also compare monthly cash activity to the cash projections shown in the cash budget. Significant variances must be identified and explained to ensure that adequate cash will be available for Chapter operations.

Fundraising status reports

Given the importance of fundraising activities to the Chapter, these reports typically document the status of annual giving campaigns, special events, online fundraising activities and major giving programs. The reports should show cash receipts and pledges receivable on a monthly basis. An additional report that displays the aging of outstanding pledges would also be helpful to the management of the Chapter. In periods when capital campaigns are active, separate capital campaign reports should also be included.

Return on investments

At least quarterly, a report should be prepared that analyzes the investment portfolio's performance.

Board of Directors reports

The board of directors has a governing role of assessing and planning for the Chapter's financial sustainability. Therefore, they must be equipped with the information needed to fulfill their roles of compliance with financial standards and policies, as well as evaluation of the Chapter's effectiveness, planning, and decision making. In order to best serve the board of directors with analysis and interpretation of the financial data, reports should be designed in accordance with the Chapter's size, complexity, and program structure.

D. External Reporting

The purpose and scope of external financial reports focuses on providing information to meet the needs of external users. The most obvious and important users of external financial reports are resource providers and regulatory agencies. These users may include donors, foundations, government granting agencies, banks and other creditors, and government regulatory and taxing bodies.

Providing information that documents the organization's use of funds, as well as compliance with laws and regulations, to governing agencies, funders, community partners, and the public must be a priority for all Chapters and their boards. The types and frequency of reports produced depends upon the purpose and requirements of the users.

All Chapters must check with their local legal counsel regarding applicable laws, regulations, and reporting requirements specific to their country. If there are any aspects of the RMHC Financial Management Standards and Guidelines that cannot be adopted by your Chapter due to local laws, you must contact your RMHC Field Operations Team Leader to discuss.

In general, compliance means conforming to a rule, such as a governing specification, policy, standard, or law. Due to the increasing number of regulations and the need for operational transparency, this is a critical area for Chapters to be mindful of, and requires a proactive approach to compliance.

It is ultimately the board of directors' responsibility to ensure that the Chapter is compliant with local laws, regulations, and all contractual agreements. This includes the completion and accuracy of tax filings and all other regulatory filings required by the Chapter's country or local government agencies, and meeting its obligations as outlined in the Chapter's license agreement with McDonald's Corporation.

External financial statement audits

The foundation for all external reporting is the annual financial statement audit, which is to be conducted by a licensed, independent certified public accountant that is in conformity with local GAAP. Although it may not be required by law in every country where Chapters operate, the independent audit is required annually per the Chapter's license agreement with McDonald's Corporation.

"Independent" refers to the fact that the auditor is not an employee of or volunteer for, nor does the auditor have any conflicts of interest with, the Chapter. The board of directors or a board committee (typically the audit committee) retains the independent auditor, through a contract for services, to conduct the audit and to render an opinion that the financial statements are in conformity with applicable generally accepted accounting principles (GAAP). This opinion is referred to as an unqualified or "clean" opinion.

The audited financial statements, including the report with the auditor's opinion about whether the financial statements are in conformity with GAAP, are to be uploaded to RADAЯ annually, within 8.5 months of the end of calendar year (September 15). The audited financial statements must contain a Statement of Financial Position (Balance Sheet), a Statement of Activities (Income Statement), a Statement of Cash Flows, and a Statement of Functional Expenses, even if not required by local GAAP.

As outlined in Foundational Area of Focus #1, *Board Financial Oversight*, the Chapter's audit committee, or finance committee if the Chapter doesn't have an audit committee, is responsible for overseeing the annual external audit process. Refer to Foundational Area of Focus #1, *Board Financial Oversight*, for detailed guidance for the audit committee on selecting, evaluating, and working with external auditors and the external audit process overall.

The independent auditors will examine, among other things, financial records, accounts, business transactions, accounting practices, internal controls, restricted gifts, and donations (to see that they were recorded and administered properly). In addition, the auditor reviews physical assets and board minutes.

An unqualified or "clean" opinion provides several benefits to the Chapter:

- Demonstrates a commitment to financial transparency
- Provides potential donors with assurance that the Chapter's financial practices meet accepted standards (GAAP)
- Demonstrates that there are appropriate procedures in place to handle contributions consistent with a donor's restriction
- Provides information required for most tax filings
- Provides information required for reporting to most funders (foundations and government agencies)
- Promotes the professionalism, transparency, and integrity of the Chapter

Foundational Area of Focus #1, Board Financial Oversight

E. RMHC Financial Reporting Requirements

Statement of Functional Expenses

All Chapters are required to prepare a Statement of Functional Expenses, even if not required by local GAAP. The Statement of Functional Expenses is best described as a matrix, since it reports expenses by major category or function (e.g., program services, management and general, fundraising, and cost of direct benefits to donors), and by their nature, or type of expense (e.g., salaries, rent, professional fees). In the Statement of Functional Expenses, every natural expense category will be listed as a separate row, and every functional expense category will have a separate column.

Natural expense categories

Natural expense classification refers to reporting expenses by the nature of each type of expense. Examples of natural expense categories are salaries and benefits, advertising, rent, and professional fees. Each natural expense category is required to be reported in a separate row in the Statement of Functional Expenses. The natural expense categories that are required to be reported on the RMHC Statement of Functional Expenses can be found in the RMHC Statement of Functional Expense Template *(see link below)*. Your Chapter's Chart of Accounts will most likely be at a more detailed level than the natural expense categories shown in the RMHC Statement of Functional Expense Template in order to meet other local reporting requirements. Each natural expense category is defined in the following document entitled *RMHC Statement of Functional Expense Guidance*.

RMHC Statement of Functional Expense Guidance

Functional expense categories

The functional expense categories that are required to be reported on each Chapter's Statement of Functional Expenses are program services expenses (broken down by type of program), management and general expenses, cost of direct benefits to donors and fundraising expenses. Each of these functional expense categories is required to be reported in a separate column on the Statement of Functional Expenses.

- *Program service expenses*

A program service expense is any expense incurred that directly relates to the programs that a Chapter delivers to fulfill its mission. This would include costs to operate Ronald McDonald Houses, Ronald McDonald Family Rooms, Ronald McDonald Care Mobiles, Ronald McDonald Other Programs (RMOPs), and grant-making programs.

- *Fundraising expenses*

Fundraising expenses are any expenses incurred in order to obtain contributions. A contribution is something of value provided to the Chapter where the donor does not receive anything of value in return. Please note: If a Chapter has contribution revenue, there is a presumption that it also has fundraising expenses. Examples of fundraising expenses include the following:

> Salaries and benefits of fundraising staff, which are directly related to fundraising activities

> Maintenance of donor databases

> Direct mail solicitation expenses

> Donor or volunteer recognition

> Costs related to publicizing and conducting fundraising campaigns and events

- *Cost of direct benefits to donors*

Costs of direct benefits to donors relates to special event fundraisers (see *Special fundraising event expense reporting* below). The items of value that donors receive at special event fundraisers are referred to as the cost of direct benefits to donors. Examples of these costs include meals, entertainment, and decorations provided at the fundraising event. Costs of direct benefits to donors should not be included as part of fundraising expenses, but should be reported as a separate function on the Statement of Functional Expenses *(see the example below)*. Indirect costs of special event fundraisers, which are costs that do not directly benefit the donor, would include items such as the costs of invitations, advertising, and staff time used in the planning of the event. All indirect costs related to special events should be reported as fundraising expenses by their natural classifications in the Statement of Functional Expenses.

- *Management and general expenses*

A management and general expense is any expense incurred by the Chapter for the overall management and administration of the Chapter, rather than the cost of providing program services or fundraising activities. These expenses are typically necessary for the operation of a Chapter, but do not fit into the other expense categories. Any type of general recordkeeping, such as board minutes, payroll, accounting, budgeting, financial statement preparation, audits, or tax returns would be considered management and general expenses. Examples include the following:

> Legal services

> Organizational reporting and compliance (i.e., annual reports)

> Administration of contracts

- *Functional expense allocation*

When preparing the Statement of Functional Expenses, expenses that relate to a specific function should be shown in that functional area on the Statement. When it is reasonably efficient to use it, the direct expense allocation is the preferred method of allocating expenses to functional areas. Direct expense allocation involves assigning each expense (e.g., invoice or line item on an invoice) to a functional category based on direct usage. For example, if the Chapter receives an invoice from a vendor that is preparing a direct mail solicitation, the expense on the invoice would be categorized as a fundraising expense. This would be considered a direct expense allocation.

There are many expenses, due to their nature, that will fall into more than one functional area, and will need to be allocated. The process of allocating these expenses to the proper functional area is referred to as functional expense allocation, also referred to as indirect expense allocation. Functional expense allocations are important, because if done accurately and consistently, they can provide realistic pictures of what each of the Chapter's programs cost, as well as the cost of their supporting services. Additionally, many donors, funders, and charity watchdog organizations utilize financial metrics to evaluate and rate charities, many of which are based on reported functional expenses.

The challenge with indirect expenses is determining a reasonable methodology for allocating those expenses among various functional areas. Below are three methods commonly used by nonprofit organizations, which Chapters may utilize in the preparation of their Statements of Functional Expenses. These methods are reflected in the RMHC Statement of Functional Expense Tool created to assist Chapters in preparing their Statements of Functional Expenses (see link below).

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*METHOD **1**:* Allocation based on time spent on functional activities

This method allocates expenses to each functional area based on the percentage of time staff spend working in that functional area. For example, the salary and related employee benefits of the Organizational Leader may be assigned to several functional areas based on the time the Organizational Leader spends working on activities related to each functional area. In many Chapters, the Organizational Leader will have responsibilities that fall into several program functions, as well as fundraising and management and general. In such cases, the Organizational Leader's salary and related employee benefits will be allocated to each functional area in which the Organizational Leader spends time.

Example: At RMHC of Anytown, Sandra, the Organizational Leader, spends 20% of her time directly overseeing the Ronald McDonald House Program. In addition, she spends 40% of her time with current and potential donors on fundraising and cultivation activities. The remaining 40% of her time is spent indirectly supervising the Chapter's other areas, including its administrative areas. When preparing the Statement of Functional Expenses, 20% of her salary and related employee benefits would be allocated to the Ronald McDonald House Program, while 40% of those expenses would be allocated to fundraising, and the remaining 40% of salary and related employee benefit expenses would be allocated to management and general.

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*METHOD **2**:* Allocation based on full-time equivalents (FTEs)

There will also be expenses in the Chapter that are shared among several functional areas. For example, the Chapter will not purchase telephone and internet services separately for program services, fundraising and management and general activities. Instead, the Chapter will purchase telephone and internet services for the entire organization, and will allocate those expenses among the functional areas as appropriate. In the case of shared expenses, it is reasonable to assume that these expenses could be allocated based on full-time equivalents in each functional area.

Full-time equivalent employees equal the number of employees on full-time schedules plus the number of employees on part-time schedules converted to a full-time basis. *For example:* You have three employees, working 50 hours, 40 hours, and 10 hours, respectively, totaling 100 hours. Assuming a full-time employee works 40 hours per week, your full-time equivalent calculation is 100 hours divided by 40 hours, or 2.5 full-time equivalents.

The RMHC Statement of Functional Expense Tool (see link below) can be helpful here, since it will automatically calculate the number of full-time equivalents in each functional area.

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*METHOD **3**:* Allocation based on square footage

This method of allocating expenses is based on the proportionate space occupied by each functional area in the Chapter's facility.

Example: If RMHC of Anytown has one Ronald McDonald House Program, it can determine the square footage within its Ronald McDonald House used for office space to conduct management and general and fundraising activities, versus space available for children and their families (program services). If 10% of the Ronald McDonald House was used for management and general activities, and 5% was used for fundraising activities, then 85% of the space would be used for services for children and their families. Using the square footage information, expenses that related to the cost of operating the facilities, such as depreciation, utilities, and property insurance, would be allocated to the following functional areas: 10% management and general expense; 5% fundraising expense; and 85% program services expense.

Most Chapters will likely use one or all three of these methods of allocating expenses to the various functional areas. The allocation method used will be dependent on an individual Chapter's needs, but regardless of the method used, it should be documented, and should remain consistent from year to year. Also, the allocation methodology used for the Statement of Functional Expenses should be reviewed by both the Chapter's Board Finance Committee and the Chapter's external auditor.

Preparing the Statement of Functional Expenses: RMHC tool and template

A tool has been developed to assist Chapters in preparing the Statement of Functional Expenses. Included below is a link to the tool, as well as an instructional video that demonstrates how to use the tool. A template for the Statement of Functional Expenses to be included in the Chapter's audited financial statements has also been developed, and the link to it is included below.

RMHC Statement of Functional Expense Guidance

RMHC Statement of Functional Expense Tool

RMHC Statement of Functional Expense Tool — Instructional Video

RMHC Statement of Functional Expense Template

Special fundraising event expense reporting

For financial reporting purposes, it is a requirement in some countries such as the United States to segregate the expenses for special fundraising event fundraisers ("special events") into two categories: costs of direct benefits to donors, and indirect costs of a special event. The items of value that donors receive at a special event are referred to as the costs of direct benefits to donors. Using an example of a Chapter's annual gala, costs of direct benefits to donors would include the costs for the facilities rental, the meal, entertainment, and decorations, since these are items that directly benefit the donor while attending the event. Indirect costs of the gala are those that cover items that do not directly benefit the donor, such as invitations, program printing, and staff time used to plan and manage the event.

Charitable organizations in the United States must report the value of benefits received by donors, since donors are not allowed to deduct these expenses as a charitable contribution for tax purposes. Any amount paid to attend the event that is over and above the direct benefit to donor amount can then be claimed as a charitable contribution made to the organization.

For RMHC financial consistency purposes, all Chapters must track both types of expenses (costs of direct benefits to donors and indirect costs) incurred in putting on a special event separately. This is required in order to complete the RMHC Statement of Functional Expenses, where costs of direct benefits to donors and indirect costs of special events will be reported separately.

It should also be noted that gross revenues from special events are required to be presented in the revenue section of the Statement of Activities (i.e., Income Statement). Costs of direct benefits to donors are to be presented on the Statement of Functional Expenses (as a separate function), and as a separate expense line on the Statement of Activities, along with program, management and general, and fundraising expenses. Indirect expenses of special events are to be included within the fundraising expense function on the Statement of Functional Expenses.

Example: RMHC of Anytown hosts an annual gala. Donors pay $200 each to attend the gala, which includes food and entertainment. The cost to the organization of food and entertainment for each guest totals $30 and should be reported as costs of direct benefits to donors. The organization also incurs other related event expenses (indirect expenses) of $30 for invitation printing and postage expense, and $30 for staff-related expense to plan and manage the event. The indirect costs should be reported as fundraising expenses, and not costs of direct benefits to donors. An example special event report is shown.

	2018
	Amount
Chapter Gala	
Gross Revenue from the Event	$ 200
Cost of Direct Benefits to Donors	
Meals and Entertainment	$ 30
Total Direct Expenses	$ 30
Indirect Expenses	
Staff Salaries	$ 24
Employee Benefits	$ 6
Postage and Courier	$ 10
Printing and Publishing	$ 20
Total Indirect Expenses	$ 60
Net Increase in Net Assets	$ 110
Net Margin	55%

RMHC Financial Metrics Requirements

In general, nonprofit organizations today face both increased competition and a higher level of scrutiny than ever before. In many regions around the world, the number of nonprofit organizations is growing rapidly in response to a variety of complex medical, educational, and social needs. At the same time, sources of revenue are constrained, compelling stakeholders to look for key indicators of a nonprofit's performance, not only as it relates to program delivery, but also to the organization's financial health and management. Many donors and supporters look to charity monitoring organizations to help them assess a potential nonprofit partner's level of success. Both financial and programmatic metrics play a key role in this assessment process.

Internally, financial metrics are a way to evaluate and communicate the Chapter's progress against key objectives. There is great value in adopting standardized RMHC metrics. Financial metrics are one more tool that can be utilized in measuring achievement, benchmarking within the RMHC system, and comparing the Chapter's practices with established external nonprofit industry standards.

Below is a list of financial metrics that Chapters are required to calculate and submit through the RMHC financial metrics report in RADAЯ annually. These metrics are important because they are very commonly cited by external agencies as important indicators, and because they provide valuable information to the entire global system of Chapters.

The metrics related to program, fundraising, and management and general expenses (#1–#3 below) demonstrate clearly that the majority of expenditures should be allocated to program delivery (fulfilling the mission), and that fundraising and management and general expenses are kept to acceptable levels. The fundraising efficiency ratio (#4) demonstrates that the total cost to generate contributions is reasonable. This ratio helps Chapter leaders to determine which fundraising strategies are more cost efficient. It can also help in planning a portfolio of diversified fundraising activities to ensure a solid foundation, and minimize risk. The current ratio (#5) is an indicator of the organization's solvency. Since Chapters' operations rely heavily on cash, the days of cash ratio (#6) is critical to ensure that sufficient funds are on hand to cover ongoing operating costs. For a longer-term view, the operating reserve ratio (#7) is an important metric, because it demonstrates long-term financial sustainability.

Required financial metrics to be calculated annually by all Chapters

- Program expense ratio
- Fundraising expense ratio
- Management and general expense ratio
- Fundraising efficiency ratio
- Current ratio
- Days of cash ratio
- Operating reserve ratio

The chart shown below provides a description and calculation of each of the required financial metrics. Definitions for the numerator and denominator in each of the metrics calculations is included in the document entitled RMHC Financial Metrics Definitions *(see hyperlink following the table below)*.

The chart also provides a set of three ranges that the Chapter and its board can use to monitor the Chapter's financial health. The color coding displayed in the chart helps to give the reader a quick view of how well the Chapter is performing. If the Chapter is within the green area, performance is within an acceptable range, and no further action is required now. If the Chapter is within the yellow area, attention must be given in order to correct or monitor the situation to bring it back to the green area, and to ensure that it does not fall into the red, or unacceptable, area. If an indicator is in the red area, corrective action must be taken to bring the Chapter back to an acceptable level of performance.

Required Annual Chapter Financial Metrics

Metric	Calculation	Range		
Program Expense Ratio	Program services expenses / Total expenses - Cost of direct benefits to donors	**≥ 75%**	**65% - 74%**	**<65%**
Fundraising Expense Ratio	Fundraising expenses / Total expenses - Cost of direct benefits to donors	**≤10%**	**11% - 20%**	**>20%**
Administrative Expense Ratio	Administrative expenses / Total expenses - Cost of direct benefits to donors	**≤15%**	**16% - 20%**	**>20%**
Fundraising Efficiency Ratio	Fundraising expenses + Cost of direct benefits to donors / Total contributions + Gross special events revenue	**≤$.20**	**$.21-$.35**	**>$.35**
Current Ratio	Current assets / Current liabilities	**≥2**	**≥1**	**<1**
Days of Cash	Cash and short-term investments X 365 / Total expenses - Noncash expenses	**≥180 days**	**30 - 179 days**	**<30 days**
Operating Reserve Ratio	Net Assets without restriction - Property and equipment / Annual operating expenses	**>1 year and <3 years**	**6 - 12 months**	**<6 months**

RMHC Financial Metrics Definitions

RMHC Automated Data Access & Reporting System (RADAЯ)

RADAЯ is a data management system that allows information to flow between Chapters and RMHC Global. On behalf of the Chapters, RADAЯ collects and stores information about each Chapter, its programs, people, relationships, and activities. It plays a significant role in supporting business processes, and enables the entire RMHC system to connect and share critical information.

All Chapters are required to submit their audited financial statements to RMHC Global annually by uploading them to the Chapter's record in RADAЯ no later than 8.5 months after the end of the calendar year (September 15). U.S. Chapters are also required to submit their IRS Form 990 to RMHC Global annually by uploading it to the Chapter's record in RADAЯ no later than 11 months after the end of calendar year (November 30).

All Chapters are also required to complete the RMHC Financial Metrics report in RADAЯ annually no later than 8.5 months after the calendar year (September 15). In the RMHC Financial Metrics report, each Chapter will input information that comes directly from the Chapter's audited financial statements. From the data that the Chapter enters, the report will automatically calculate the seven required RMHC Financial Metrics.

RMHC Financial Metrics Report in RADAЯ

Financial Policies and Procedures

FINANCIAL POLICIES AND PROCEDURES FORMALLY ESTABLISH A COMMON understanding of the Chapter's objectives, and they set operational boundaries by guiding decisions and behaviors. In the absence of documented, board-approved policies, staff and volunteers are likely to operate under a set of assumptions that may not only be inaccurate and unproductive, but also open the door to major risk.

There are many benefits to adopting and implementing policies; they communicate and reinforce standard operating procedures and philosophies, help in the general management of the Chapter, are the primary vehicle through which the board of directors governs, protect the Chapter by focusing on areas such as fraud prevention, risk management, investments, debt, employment, and employee relations, and serve as an orientation tool for new board members, staff, and volunteers.

STANDARDS

5.1 ***The Chapter has documented, board-approved financial policies and procedures that at minimum include policies and procedures on:***

1. ***Accounting***
2. ***Cash management***
3. ***Conflict of interest***
4. ***Debt and borrowing***
5. ***Records management***
6. ***Financial data protection and privacy***
7. ***Gift acceptance***
8. ***Investments***
9. ***Risk management***
10. ***Purchasing and procurement***
11. ***Reserves***
12. ***Travel and expense reimbursement***
13. ***Whistleblower***

5.2 ***The Chapter enables internal compliance with its financial policies and procedures by providing relevant ongoing training and support to its board members, staff, and volunteers.***

Throughout the Guide, these icons highlight important information, reference other RMHC guidebooks, and provide links to additional resources available to download.

Logon to www.rmhcradar.org to access RMHC hyperlinks.


Activity


For more information *(hyperlink)*


Hot tips


Quick reference


Tools and templates to download *(hyperlink)*

GUIDELINES

A. Financial Policies Required

Best practices in financial management include a system that underpins consistent day-to-day practices through a series of financial policies and procedures. These policies and procedures should be documented, implemented, kept up-to-date and easy accessible by all board members, staff, and volunteers (when appropriate).

A comprehensive RMHC 'Accounting and Financial Policies and Procedures Manual' template, has been created for Chapters to customize. The template is based on industry best practices and includes all required policies as per Standard 5.1 (and listed below), as well as many other policies that are not required but may be relevant to Chapter/Program operations. It is meant to enhance existing Chapter policies and if needed help establish new policies that are relevant to an individual Chapter's circumstances. This template is available for download at the end of this section.

The template is intended to be used as a guide; therefore, it is not expected Chapters will implement every policy as written. Rather it exists to provide Chapters with a reference tool. Policies in the template should be reviewed and customized to incorporate local regulations and practices.

Some Chapters may wish to use the template in its entirety, whilst others may prefer to use it to cross reference their own policies or access specific polices to incorporate into their existing Chapter manual. It is important that the Chapter go through its regular review and approval process with Chapter management and its board before adopting any new policy.

*REQUIRED POLICIES PER **STANDARD 5.1***

1 Accounting

All Chapters should have documented accounting policies and procedures that are compliant with its respective country's generally accepted accounting principles (GAAP).

2 Cash management

Cash Management policies encompass several activities within the following primary functions: cash collection, cash disbursements, investment of surplus cash, forecasting cash needs, and managing banking relationships.

3 Conflict of interest

As outlined in the *RMHC Governance Guide*, having a Conflict of Interest Policy and having both senior staff and board members annually sign a conflict of interest statement is best practice. The next (and recommended) step in this area is to ensure that a conflict of interest discussion takes place at the board level at least annually with examples of what is and what is not a reportable conflict. Also, the policy should empower one board member to "call out" another member's potential conflict.

The optimal method for declaring a conflict of interest is for the board members themselves to do it. Board members should be given the opportunity to go on record annually by filling out a conflict of interest form and signing it. There will, however, be times when a conflict comes up at a meeting and a board member tells everyone that they feel they have a conflict. The board should then respond to the conflict as indicated in the policy.

The Conflict of Interest Policy should be reviewed annually, and all board members should be required to sign a new conflict of interest declaration each year.

4 Debt and borrowing

Before a Chapter takes on debt, a long-term financial plan, including capital expenditure needs, should be developed. Several questions need to be answered before a Chapter enters into any long-term debt program, such as:

- What is the Chapter's level of comfort with the risk associated with debt?
- How much interest on the debt principal can the Chapter afford?
- Is the Chapter willing to provide collateral to the lender and to what extent?
- What type of loan terms is the Chapter willing to agree to?
- What type of reporting is required in exchange for the funding? Does the Chapter have the capacity to meet those requirements? What are the penalties for not meeting the reporting requirements?

The long-term financial plan should also consider short-term funding requirements of the Chapter. This will require Chapter management to monitor and understand the elements of the organization's cash-flow cycle. The following factors should be considered:

- Cycle of revenue-generating activity
- Collection period and timeliness of disbursements
- Economic trends

5 Records management

The Document Management Policy, also known as the Records Management Policy, is the overall road map for the retention and disposal of Chapter records. This should include policies and procedures for handling all paper and electronic records.

A Records Management Policy should establish which records are retained, how they are stored, how long they are to be kept, and when they can be disposed of and/or destroyed.

In line with any local laws and regulations, the policy must document how the Chapter will keep such records, and how long each type of record will be kept. Once the Chapter identifies the various records and retention periods, it can develop a records-retention schedule. The records-retention schedule should be periodically reviewed to be sure it is still in compliance with applicable laws and meets the Chapter's needs.

6 Financial data protection and privacy

As per the *RMHC Technology Guide*, there are operational, legislative and brand issues associated with losing data. There are specific mechanisms through which data may be safely stored and restored to protect against issues such as machine loss or failure. These factors should be considered as part of the broader needs around business continuity and disaster recovery.

It is recommended that Chapters have a written Data Back-up and Recovery Plan that is tested annually. The following are some guidelines to keep in mind:

- Use commercial software to back-up data; check the audit logs of the software every week to ensure that the back-ups have run successfully.
- Where possible, encrypt back-ups.
- Ensure that copies of critical data are kept offsite in a way that is compliant with any local data protection regulations.
- Never back-up sensitive data to USB keys or DVD/CDs.

Data privacy refers to the types of information collected by RMHC and how it is used. Data privacy is of the utmost importance to prevent breaches, ensure integrity, and protect privacy.

Preventive actions

There are actions that can be taken to prevent disclosure of sensitive information. As indicated in the *RMHC Technology Guide*, "It is good practice to ensure each type of data that is held by a Chapter is properly classified. Classification means identifying how sensitive data is so that it may be treated appropriately". See *RMHC Technology Guide*, section 5.2 "Data Classification" for tips on how to classify data.

Top DOs to help protect personal information are listed below:

> DO collect only the data that is needed.

> DO reduce the number of places in which data is stored.

> DO properly dispose of data once the need for it has expired.

> DO be careful in how data is shared.

> DO beware of emails and attachments from unknown sources. Do not click on suspicious links.

> DO protect data on computing devices by using physical and technical safeguards (e.g., cable lock, locked drawer, complex passwords).

> DO think before connecting portable external devices, such as USBs and smart phones, to a computer with access to the Internet.

> DO stay alert and report any suspicious IT activity.

> DO operate a clear desk policy, securing information classified as sensitive or above from public view when left unattended.

> DO lock access to workstation or log off if leaving one's workstation unattended.

> DO remove sensitive information from copiers, printers, and/or fax machines as soon as possible.

All data held by Chapters should have an identified Access Manager who is responsible for ensuring the security, proper usage, and controlled access to the data. Where a third party supplies a system, it is not sufficient to assume that the third party is appropriately implementing data security.

7 Gift acceptance

A written Gift Acceptance Policy helps manage the expectations of donors, and serves as guidance for board and staff members who are on either on the asking, or receiving end, of contributions.

A Gift Acceptance Policy is essential as:

- It defines the types of gifts that align with—and those that may not align with—Chapter values. The Policy is useful to underscore why the Chapter cannot accept a gift in certain instances.
- The Chapter may simply not be equipped to either dispose of or manage the ongoing requirements of maintaining the value of certain gifts.
- Governing agencies may consider having a gift acceptance policy in place a best practice.

Accepting a gift

> Consider who the audience will be for the Gift Acceptance Policy: Will the policy help guide prospective donors who are considering a gift? Or is the policy only intended to provide guidance for staff and board members?

> For maximum financial transparency, consider posting the policy on the Chapter website to help manage donors' expectations before they approach the Chapter with a non-standard gift.

> If the policy will not be posted on the Chapter website, consider how the policy will be distributed to individuals who are considering a gift.

HOT TIPS CONTINUED ON NEXT PAGE

CONTINUED

> Consider which types of gifts that will require the Chapter to conduct further review and/or consult with legal counsel prior to acceptance. An example of this type of gift may be a gift of real estate.

> Consider under which situations donors should seek professional advice prior to making a gift; Chapters should not provide advice directly to the donor because of a potential conflict of interest.

> Consider the usefulness in certain situations of a "gift acceptance committee," or task force. The task force would be composed of individuals with appropriate expertise and experience to evaluate gifts and recommend to Chapter management whether to accept them.

> Consider any specific types of contributions that are or are not acceptable to the Chapter; it is best to be transparent and name these types of contributions in the policy.

8 Investments

Prudent investments maximize the value of donations to the Chapter. Investments can help increase the revenue and asset base, preserve purchasing power, and decrease reliance on fundraising. At the same time, investments present risk to the organization. Money invested is money that can potentially be lost through the investment. Most boards approach investing organizational funds with caution.

An Investment Policy translates investment objectives into action. Based on the Chapter's stated goals and objectives, the policy helps the board and management determine the acceptable risks necessary to achieve them. The Investment Policy also controls risk. The policy is tied to and impacts every other area of the Chapter, including budgets, fundraising and program development.

Seeking external professional advice can help avoid potential conflicts of interest and also provide additional expertise when making decisions relating to investments.

The goal for all Chapters worldwide is to be a "prudent investor"—maximizing returns without taking excessive risks. At a minimum, Chapters should reflect on the following when developing/updating their Investment Policy:

- What is the Chapter's investment strategy?
- How does the Chapter structure its portfolio to meet current and future goals?
- Consider the Chapter's short- and long-term cash needs.
- How much of the assets should be invested in the long-term portfolio?
- How much of investment portfolio will be spent each year?
- What should the asset allocation of the investment portfolio be?
- How can investments be diversified to reduce risk?
- What is the plan to monitor investment performance against established performance benchmarks?

9 Risk management

Effective financial risk management is critical in protecting income, data, reputation, and stakeholder confidence. A Risk Management Policy should outline how the Chapter manages the risk associated with its operations. This includes: how the Chapter will identify, assess, quantify, and mitigate the broad range of strategic, operational, financial, and other risks confronting the organization.

When developing a Risk Management Policy, each Chapter will determine appropriate steps to mitigate risk after considering the complexity of its structure and the range of programs offered. A Risk Management Policy should clearly set out:

- How risk management is important to the Chapter's objectives
- How it supports and aligns with the Chapter's culture and structure
- The process for identifying, assessing, recording, managing, reviewing, and reporting on risks
- Risk roles and responsibilities
- The Chapter's level of comfort with risk

Best practice is to undertake an annual formal assessment, however at minimum, identifying risks and implementing strategies at critical times, such as annual planning and when making key decisions, ensures there is ongoing dialogue and action in this area.

Foundational Area of Focus #2: Risk Management

10 Purchasing and procurement

The Purchasing Policy should address approved spending levels and identify who is authorized to approve such expenditures. The Purchasing Policy should also address the following:

- The minimum number of vendors that must be involved in a bid process
- The process for making final vendor and pricing decisions
- Accepted time frames for negotiating or re-negotiating vendor contracts
- The term for standing contracts and determination of when a contract must be re-opened for the bid process.
- Restrictions on board or manager relationships with service providers

11 Reserves

A Reserves Policy should be developed and integrated with the Chapter's overall strategy and long-term financial plan. The policy should address both operating reserves and capital reserves.

- *Operating reserves* are the portion of unrestricted funds that the board maintains or designates for use in emergencies. The purpose of such funds is to sustain financial operations in instances of unforeseen events, significant unbudgeted increases in operating expenses, and/or losses in operating revenues. It is important to note that operating reserves are also sometimes used to accommodate day-to-day fluctuations in normal cash flow requirements.
- *Capital reserves* are the portion of unrestricted funds that the board sets aside for anticipated or unanticipated capital expenditures. The first step in determining the level of reserves needed is to identify the cost to maintain current, or add to, the Chapter's fixed assets. If your Chapter operates a Ronald McDonald House program, the RMHC Property Reserve Study conducted for each of these programs is an excellent resource for this process.

Chapter management and its board need to determine the needed level of operating and capital reserves to operate effectively and efficiently. Chapters are expected to have a minimum operating reserve of one year and no more than three years of annual operating expenses (refer to Foundational Area of Focus #4: "Financial Accounting, Reporting and Metrics" for more information on RMHC Global requirements and the calculation of the operating reserve).

The Reserves Policy should define the adequate level of operating and capital reserves for the organization and how the reserves are calculated. It should also provide the funding strategies that will be used to build the reserves. The policy should provide the rationale that the Chapter and its board used to define the adequate level of reserves.

Reserves levels which are higher than necessary may tie up funds unnecessarily, limiting the amount of money that could be spent on charitable activities. However, if reserves are too low, then the Chapter's solvency can be put at risk. Because the Chapter's circumstances change over time, once it has been set, a Reserves Policy should be reviewed at least annually as part of the Chapter's planning process.

12 Travel and expense reimbursement

Chapters may reimburse an employee, volunteer or board member for approved, work- related travel and entertainment expenditures that are necessary in the performance of his/her assigned responsibilities. The Travel and Expense Reimbursement Policy should address the following elements:

Authorization

The Policy should communicate that travel approval should be obtained prior to undertaking official organization travel; if approval is not obtained, expenses are incurred at the traveler's risk. The Policy should also define who within the Chapter has authority to approve travel-related expenses and entertainment expenses.

Authorization responsibilities

It is the responsibility of those approving reimbursement to ensure that:

- Expenses are incurred for the benefit of or are in the best interest of the organization.
- Expenses are reasonable and incurred as outlined in the Chapter's policy.
- Documentation is complete, with original receipts to include the name, and the nature of the business discussion and/or meeting, resulting in the reimbursable expense.
- Reimbursement claims are submitted within a timely period after the expense is incurred.

Nature of the expenditure

The Policy should be clear as to type of expenditures that will be reimbursed and who has the authority to approve travel and expense reimbursements.

13 Whistleblower

A Whistleblower Policy encourages staff and volunteers to come forward with credible information on illegal practices or violations of adopted Chapter policies. It also specifies that the Chapter will protect the individual who reported the illegal practice or violation from retaliation, and identifies those staff, board members or outside parties to whom such information can be reported.

Having a policy that encourages people to report their concerns without fear of retaliation is critical to good governance. It is also a legal requirement in some countries. Claims for retaliation are one of the most prevalent causes of actions against employers (including nonprofits) today.

Accounting and Financial Policies and Procedures Manual Template

B. Developing Financial Policies and Procedures

There are many things to consider when establishing, writing, implementing and reviewing policies and procedures documents. Engaging in discussion and gathering perspectives from the controller, board treasurer, finance committee, or executive committee is a great first step. Together, you will discuss areas that may require a new policy or document previously informal Chapter activity into a formal policy. Conducting a formal or informal risk assessment, can also help establish clarity on the purpose and desired outcome of the policy.

It is important to note that it is not possible to anticipate every situation or nuance that may arise. Therefore, it is not practical to develop policies and procedures on all aspects of day-to-day operations. However, thoughtful policies and procedures provide clarity on what is expected and what to do in specific situations. Monitoring compliance as well as training and supporting staff and volunteers, as relevant, are equally as important as the policies themselves.

When developing a policy, consider the size and scale of the Chapter as well as the ultimate purpose and desired outcome of the policy. At minimum, all policies should include:

An opening statement

A short opening statement provides the rationale and context for the policy, including the underlying philosophy of the policy and what the policy hopes to accomplish. This section may also include a statement about how the policy is related to the Chapter's mission and values.

The policy statement

The policy statement outlines the policy detail. The policy should be clear, concise and written in plain language.* Policy statements range from one or two sentences to a paragraph in length, depending upon the subject matter.

The procedure

This includes the steps necessary to comply with the policy, with sufficient detail that end users will readily understand how to comply with the policy mandate. Procedures should be consistent with the policy section and include:

- Links to any forms associated with the procedure
- Last date updated, by whom and next review due date

Good policies and procedures documents:

> Are reviewed regularly and updated as needed
> Are written using simple, clear, concise and plain language*
> Avoid jargon and overly technical descriptions
> Clearly differentiate between "policy," "procedure," and other appropriate headings within the section
> Consider why the user will need the information and what the user will likely be doing when looking for information
> Provide accurate contact information for users who have questions or situations that fall outside of the normal circumstances

***Plain language is a writing style that helps readers:**

> Find what they need
> Understand what they find, and
> Use what they find to meet their needs

USE	*DON'T USE*
Logical organization of information	Jargon and technical language
Informative headings	Hidden verbs
Active voice	Long sentences or paragraphs
Pronouns	Abbreviations
Common words	Passive voice
Lists and tables	Unnecessary words

HOT TIPS CONTINUED ON NEXT PAGE

CONTINUED

Plain language is written in the "active voice"

In an active-voice sentence, the person or organization/department/unit performing the action is the subject of the sentence. Alternatively, passive-voice sentences often do not identify who is performing the action.
For example:

ACTIVE VOICE	*PASSIVE VOICE*
You must include the following information in your application for it to be considered complete.	The following information must be included in the application for it to be considered complete.

Financial Literacy

IN AN INCREASINGLY CHANGING AND GLOBALIZED WORLD, IT IS critical that people and organizations make well-informed financial decisions. Many policymakers and economists argue that financial literacy is key to financial well-being. Although many studies and articles are focused on personal financial literacy, it is best practice for nonprofit leaders generally, to also have an ongoing commitment to improve their level of professional financial literacy.

In its simplest form 'Financial Literacy' refers to knowledge and skills needed to make informed and effective decisions about financial resources. It is a critical area for Chapter leaders with finance responsibility, as it impacts the financial sustainability of the organization.

STANDARDS

6.1 ***All current and future employees, volunteers and board members have the essential financial knowledge relevant to their role, including the necessary experience and skills to successfully carry out their responsibilities.***

6.2 ***There are succession plans in place for employees with Chapter financial leadership responsibilities and the role of the Board Treasurer.***

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GUIDELINES

A. Recommended Knowledge and Skills

The following provides a list of Chapter roles with primary responsibilities related to financial management.

ORGANIZATIONAL LEADERS

Recommended knowledge and skills for Chapter Organizational Leaders

■ Reading and understanding financial statements

There are three primary financial statements used by nonprofit organizations, which are:

1 The Balance Sheet (Statement of Financial Position)

The purpose of the Balance Sheet is to provide current financial information that can help leaders understand the financial status of the organization. It describes the financial position of the organization on a given date, by listing the types and amounts of its assets, liabilities, and equity.[1] The relationship between the assets, liabilities and equity can be seen in the following equation:

ASSETS = LIABILITIES + EQUITY

The Balance Sheet received its name from the equation shown above since the assets of an organization must be equal to the total of its liabilities plus equity. This equation, which is known as the *accounting equation*, is basic to understanding the Balance Sheet and accounting.

Nonprofit organizations also have Balance Sheets. They function the same as a corporate Balance Sheet with the exception of the treatment of the organization's equity account. Since there are no owners or stockholders in the nonprofit organization, the equity account is referred to as *net assets* (assets minus liabilities). The nonprofit Balance Sheet is generally referred to as the Statement of Financial Position, and like the for-profit Balance Sheet it shows assets, liabilities and equity (net assets).

2 The Income Statement (Statement of Activities)

The Income Statement shows the results of the organization's financial activities for a period-of-time. It lists all revenues and expenses of an organization and the resulting profit and/or loss for the period reflected on the statement.

The Statement of Activities is the nonprofit organization's version of the Income Statement. Revenue and support are shown in major categories such as contributions, program-related income or investment income. The nonprofit organization also has expenses in the operations of its programs, management and general support, and fundraising. Like the for-profit income statement, the Statement of Activities subtracts expenses from revenue to arrive at a "bottom line," or net change in net assets.

3 The Statement of Cash Flows

The Statement of Cash Flows provides information about the sources and uses of cash during the reporting period and provides relevant information that supports the Income Statement or Statement of Activities in terms of the organization's liquidity, flexibility, ability to meet obligations, and need for external financing. The statement reports sources and uses of cash from operating activities, investing activities, and financing activities.

■ Generally Accepted Accounting Principles (GAAP)

No discussion of financial literacy would be complete without referring to generally accepted accounting principles. GAAP includes both broad and specific principles issued from official pronouncements given by an authoritative accounting organization. Each country has its own GAAP. Therefore, RMHC Chapter leaders must become familiar and comply with the GAAP that govern the accounting rules for their country or region.

Long-term financial planning

A strong financial plan will help Organizational Leaders make sound decisions not only in today's terms, but also in terms of sustainability for the future. Financial planning begins with the Chapter's strategic plan, and takes a broad look at the Chapter's financial operations and long-term goals.

The long-term financial plan should precede and control the formulation of the operating budget. When developing a long-term financial forecast, as much historical data as can be conveniently gathered is obtained. A financial forecast is based on historical data and then modified to reflect known or planned changes. Failure to consider the known or planned changes will not only result in a poor forecast, but it could lead to a financial crisis for the organization.

The long-term financial forecast generally looks first at revenue projections. Revenue projections should take into consideration the economic climate and consider such things as the unemployment rate, the performance of the stock market, and the condition of the general economy. These issues will not only affect the level of potential contributions, but may also affect the organization's return on its long-term investments.

Revenue projections should also consider the Chapter's ability to secure grants and contracts. The history of grant income will be helpful, but the future availability of grants and the competition from other organizations must also be considered. A good revenue projection will consider potential local, state, province and federal support.

The long-term financial forecast should consider revenue sources from programs or any other revenue source that may be available to the Chapter. All sources, even minor ones, should be considered in preparing the forecast, because even small estimating errors may lead to financial difficulties in the forecast period.

Once revenue sources have been identified, the forecast should focus on the expenses needed for the Chapter's operations. All program, general management, and fundraising expenses should be considered. Again, it should be emphasized that a good budget is the result of good planning. With the financial forecast completed, the organization's leaders can being to plan its operating budget.

Operating budget

The operating budget illustrates the financial impact of the Chapter's planned activities for the year. It is developed using information taken from the long-term financial plan.

Each Chapter should develop a budget process that will meet its individual needs. No single process is necessarily suitable for all Chapters, but a budget process needs to be in place to manage the organization's finances.

The finished operating budget can be thought of as the first step of budgetary control. If properly prepared, the budget is a projection of reasonably attainable operating results for a fiscal period (12-months). With a budget in place, the organization can regularly evaluate actual performance to the planned performance; once a variance is observed, Chapter management has the opportunity to take corrective action to bring the actual performance back into line with the budget.

Generally, there are two levels of the operating budget, the master-operating budget that shows revenue and expenses for the entire Chapter, and the department or program budgets. The department or program budgets are sub-sets of the master-operating budget. By developing budgets at the department or program level, Chapter management can monitor the actual performance of a department or program during the year and take corrective action if there is variance from the plan.

Capital budget

A capital budget is generally thought to be the process of planning expenditures of assets with expected returns beyond one year.[2] There are several steps in the capital budgeting process that Chapter management should follow:

1 *The capital needs of the Chapter should be analyzed.*

This should result in a list of projects that are important to the organization, along with a projected timeline and a set of project priorities. The list should contain building projects, and program infrastructure investments that need to be made in the future. The capital budget is a planning and control document, and like so many such documents needs to be updated on a regular basis.[3]

2 *The capital budgeting process will assign cost estimates to the various projects in the capital budget plan.*

The need for precision on cost estimates varies. During early iterations of the capital budget, cost estimates can be approximate. As the project takes shape and architects and planners provide more details about the project, then estimates become more detailed. If your Chapter operates a Ronald McDonald House program, the RMHC Property Reserve Study done for each of these programs is an excellent resource for this planning process.

Just as cost estimates take shape through various iterations of the capital budget plan, project timelines also go through several planning iterations. Availability of funding or the Chapter's ability to absorb debt service may alter the original timeline, which is based on priorities, and on project cost estimates.

Project financing comes in many forms. Donors may give money toward capital projects. Government agencies may make appropriations to finance capital projects, or the Chapter may look to some form of debt financing.

3 *The Chapter should test the feasibility of the capital plan and evaluate its risk(s).*

The costs of the capital plan must be integrated into a long-range financial forecast to determine financial feasibility.

Cash budget

The cash budget focuses on identifying the cash needs in future periods. It projects the flow of cash into and out of the Chapter over a period-of-time. The cash budget is also based on the information obtained in the long-term financial forecast.

In preparing the cash budget, only receipts and disbursements of cash are included. Other entries that affect the accounting records such as pledges received, grant awards, or accounts payable are not recorded in the cash budget until an actual cash transaction takes place.

Like so many control documents, the cash budget should be updated continually. This procedure ensures that the cash budget remains a relevant and useful tool. Since the cash budget has a short-term focus, the financial officer cannot afford to be guided by outdated projections. As a control document, the cash budget will give Chapter management a warning when there is a cash-flow concern. If additional operating cash is needed, the financial officer can make short-term plans to find needed cash. This may be accomplished through a line of credit or a short-term bank loan. The Chapter will find that lenders look at this type of planning as an indication of good management practice.[4]

Managerial reports

The purpose of managerial financial reporting is to provide useful information for evaluating the financial effects of management decisions. It focuses on the financial dimensions of the organization and conveys whether the Chapter's objectives are achieved.

Managerial financial reporting is both internal and external in nature. The internal audience includes all levels within the organization, as well as the governing board, who must understand the effects of management's decisions on the Chapter. The external audience may include other entities such donors

(individuals, foundations and corporations) and government agencies (federal, state, provincial and local) that have supported the organization with unrestricted or restricted resources or sponsored specific events or programs. More specifically, managerial financial reporting should accomplish the following objectives:[5]

- Provide information on the financial position of the Chapter and on financial performance.
- Provide information on non-financial performance. Conclusions concerning the effectiveness of the organization's programming should be included.
- Define the level of accountability. A clear definition of who is accountable for what and to whom should be given.
- Identify audiences and users of reports and adapt content and format to the audience's needs.
- Support financial forecasting and long-range financial planning.
- Be consistent and comparable; detail should be appropriate to the user's level of responsibility.
- Reflect the changing demands and needs of the Chapter's management team.
- Be performed by knowledgeable administrators.

Finally, managerial financial reporting should address bottom-line results, including an evaluation of the resources needed for both short-term and long-term operations of the Chapter.

Investing endowments and other long-term investments

The investment of the Chapter's funds is also an important function of financial management. Chapter investments can be made up of both funds that have been restricted by donors, and funds that do not have any donor restrictions.

The term endowment fund is used in a legal sense to account for funds obtained from donors who have placed restrictions on the use of the principal and/or the earnings on the donations to a Chapter. There are three categories of endowment and similar funds: true endowments, term endowments, and funds functioning as endowment (also known as quasi-endowment funds).

1 True endowments

Also known as permanent endowments, true endowments are resources in which a donor has stipulated that the gift is to be maintained in perpetuity. The earnings (interest and appreciation) from the invested funds may be unrestricted or restricted for a specific purpose per the donor's instructions, but the principal or corpus must be maintained intact. *For example:* A donor gives a gift to a Chapter and states that the principal amount of that gift must be kept in perpetuity, but agrees that the earnings from investing the gift may be used for general purposes (unrestricted). In some cases the donor may stipulate or restrict the use of the earnings to a specific program of the Chapter.

2 Term endowments

Term endowments are like a true endowment, except that, upon the passage of a stated period of time, or a particular event, all or part of the donation may be expended. *For example:* A donor gives a gift to a Chapter and stipulates that the principal of that gift must be invested for 10 years. During that time the gift will be treated as a true endowment, but at the end of the 10-year period, the Chapter may use the gift as an unrestricted donation, unless the donor restricted it for a specific Chapter program. Both the true endowment and the term endowment are considered to be donor restricted endowments.

3 Funds functioning as endowments

Also known as quasi-endowments, funds functioning as endowments are unrestricted funds that have been approved by the governing board to be treated as an endowment fund. Unlike a true endowment, the principal and earnings of these funds may be utilized at the discretion of the governing board at some time in the future. This is possible because the funds functioning as an endowment are not donor restricted.

For example: A Chapter has a large cash reserve and the board directs that the cash reserve be invested and treated as a fund functioning as an endowment. The earnings from the funds functioning as an endowment

are unrestricted. If, however, at some time in the future, the Chapter wants to expand its House facilities and would like to use some of the funds functioning as an endowment for the expansion project, they would be able to do so if the board of directors approves the use of the funds functioning as an endowment for the project.

A comprehensive Chapter Investment Policy and Procedures is an important part of investing endowment funds and other long-term investment portfolios. This policy and procedures should articulate return objectives, time horizon, long-term asset allocation guidelines, short-term asset allocation guidelines, and investment manager selection and evaluation criteria. To avoid the immediate reduction in distributable earnings that might be the result of a decline in the equity market, Chapters should adopt spending policies that permit the expenditure of both current income and a portion of the appreciation on invested funds. Most spending plans aim to balance the need for current operating support and the preservation of the purchasing power of the endowment.

CHIEF FINANCIAL OFFICER (CFO) OR EQUIVALENT

For the purposes of this section we will consider any senior manager who oversees a Chapter's accounting and finances to be a CFO. Other titles organizations use for this position may include: chief financial and administrative officer, director of financial services, director of finance, director of finance and administration, director of finance and operations and fiscal director.

There are several reasons a Chapter might have the position of CFO

This position may help to:

- Bring a strategic, high-level perspective to the Chapter's finance and accounting needs by creating the budget for the organization, analyzing the financial statements, and interpreting the implications for the organization.
- Build the Chapter's capacity to manage its finances as it grows in size and/or complexity.
- Reduce excessive Organizational Leader workload in the areas of finance, administration, real estate, or technology.
- Balance or supplement the skills of the Controller or other finance team members.
- Collaborate with the Organizational Leader and board to make decisions through a financial lens and educate staff on financial literacy.

What are the characteristics of an ideal CFO?

Technical knowledge and skills:

- Understands nonprofit accounting and tax regulations, budget models, and contracts in depth
- Is well-networked in function-specific associations
- Pays close attention to details and is precise

Strong communication skills:

- Proactively engage with and inform the Organizational Leader about the organization's finances and their implications
- Able to provide education to program staff about program finances in clear, understandable terms
- Able to establish systems of accountability and processes that engage program staff in tracking financial performance
- Commitment to transparency

QUICK REFERENCE CONTINUED ON NEXT PAGE

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Strong collaboration skills:

- Works well across variety of functions and programs
- Build strong relationships with donors
- Has an existing network of support to draw upon for advice, as well as potential pro-bono or discounted services

Work style:

- Exercises good judgment in the midst of much ambiguity
- Can work at both the strategic level and the execution level; does not merely delegate work to others

Connection to the mission:

- Is passionate about the mission of RMHC

Recommended qualifications and experience needed to be the CFO

As a general rule, the CFO should have 5 to 10 years experience as a financial leader. It is not mandatory that the new CFO have nonprofit experience, although nonprofit finance experience would be strongly desired.

The CFO should also have an undergraduate degree in business, management, finance, or accounting and the ability to visualize, articulate, conceptualize or solve complex problems by making decisions that are sensible given the available information. A strong candidate would also have an advanced degree or reached the level of Certified Public Accountant/Chartered Accountant, particularly for larger, more complex Chapters.

FINANCE MANAGER OR EQUIVALENT

Reporting to the Organizational Leader, the finance manager may be a member of the senior management team, and will be involved in strategic planning, staff evaluation and professional development initiatives, as well as overseeing compliance for financial reporting obligations and planning for the Chapter's long-term financial needs.

In terms of financial administration, the finance manager will review and approve the process of preparing and finalizing monthly and annual financial reports for senior management and the board of directors. The finance manager will also review and approve all required external financial reporting. In addition, the finance manager will coordinate all audit activities, oversee budgeting, financial forecasting and cash flow management for existing programs and proposed new programs.

The Chapter's finance manager should have the following experience and attributes

> Minimum of undergraduate degree in business, management, finance or accounting. Advanced degree in accounting and/or business, preferred.

> Excellent people skills, with experience collaborating in a multi-disciplinary, diverse, and dynamic team.

> Demonstrated experience in financial management and accounting, ideally in the nonprofit sector.

> Experience should include audit, compliance, budget, and development of financial tools and resources.

> Demonstrated ability to set priorities, propose new ways of creating efficiencies, and guide investment in people and systems.

> Proven effectiveness leading professionals in finance and accounting.

Financial Manager Role Description

RMHC People Management Guide, page 37

CHAPTER'S BOARD OF DIRECTORS

Strong financial management is a necessary tool for every Chapter. As the ultimate fiduciaries of the organization, the Chapter's board of directors plays an essential role in the financial management of the Chapter. The board should focus on the following three areas: budgeting, overseeing assets and raising revenue.

Budgeting

The budget translates the goals of the Chapter into one set of measurable terms. The board, through a finance or budget committee, reviews management's recommendations, including key assumptions for the next year's budget. In keeping with the RMHC values of transparency and accountability, the committee should ask probing questions of both themselves and management. When questions are asked, the budget may go through several revisions before reaching the full board. The full board will have the responsibility of final review and approval of the budget upon the recommendation of the committee. To meet its fiduciary responsibilities and make sound decisions, the board must be fully aware of the Chapter's financial condition.

Overseeing assets

The board should evaluate the audited financial statements to gain a clear understanding of the Chapter's financial position. Endowments and other long-term investments require special attention by the board. The board should make certain that the endowment and other investments are overseen and managed in accordance with good investment practice. The board should also satisfy itself that the Chapter's investment policies are consistent with the board's tolerance level for risk and volatility, and is reflective of the Chapter's values.

Raising revenue

RMHC Chapters rely on fundraising activities to provide financial resources for their programs. These fundraising activities include annual campaigns to support the operating budget and capital campaigns to raise funds for facilities and the endowment or long-term investment portfolio. The board's involvement in capital campaigns is critical to the campaign's success.

The board must monitor both the management of donated funds and the cost of raising them. The management of funds includes proper recording of gifts, monitoring of cash versus pledges, and decisions about using particular gifts. The cost of raising funds must be closely watched and accurately reported to ensure its reasonableness and conformity to industry standards.

Board's role in a capital campaign
RMHC Capital Campaign Guide

B. Onboarding and Training

A well-designed onboarding process to welcome and educate new staff about their role within the Chapter is core to not only making a great first impression and increasing retention, but it also protects the Chapter's recruitment investment. Other benefits include:

- Reducing time to productivity
- Reducing stress
- Reducing turnover
- Developing job knowledge
- Minimizing disruption to the rest of the Chapter
- Gaining higher levels of employee engagement
- Creating a sense of "team"
- Communicating the mission and values

There are three basic elements when considering onboarding and training needs:

1. Creating a thorough recruitment process aligned to core competencies
2. Developing an effective orientation/onboarding process
3. Providing ongoing training and development opportunities

Some of the recommended information that should be shared when onboarding board members and staff with finance responsibilities:

> RMHC mission and an overview of the Chapter's programs and services
> Constitution/By-Laws/Articles of Association/Incorporation
> License Agreement with McDonald's Corporation
> Brief explanation of financial statements and accounting terminology unique to nonprofit organizations
> Annual financial calendar showing important Chapter finance dates
> Current year budget and financial statements
> Description of the organization's tax status and filing requirements
> Most recent audited financial statements and tax filings
> Relevant policies (e.g. accounting, travel and entertainment, conflict of interest, whistleblower)
> Financial risk management procedures
> RMHC educational calendar (e.g. webinar series and conferences)

c. Succession Planning

Succession planning should be an essential part of every Chapter's plan for sustainability and people development. In an environment where there are many competing priorities, it is an easy task to put off, particularly when everything seems to be going well. However, failing to have succession plans in place for key Chapter roles, such as the Organizational Leader, Finance Manager and Board Treasurer could have major implications to the financial health of the Chapter. Some benefits of succession planning include:

- A framework to align leadership with the strategic needs of the Chapter
- A development opportunity for Executive/Management Staff
- Ongoing job analysis and opportunities for Executive Staff to adjust roles based on changing business conditions and strategic initiatives
- Helps prepare for unexpected vacancies

Succession planning
RMHC People Management Guide

Some basic considerations for succession planning include:

Evaluate future changes and risks

The first step in succession planning is to consider upcoming people changes and risks you already know about that would affect the continuity of operations. An example of a future change might be the retirement of a staff member; a potential risk could be operating with a small team where the absence of one team member jeopardizes smooth Chapter operations.

HOT TIPS CONTINUED ON NEXT PAGE

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Build a team

When developing your succession plan, it is important to bring together a team that represents different skillsets and perspectives to help ensure the succession plan is as comprehensive as possible.

Identify key positions, requisite skills and candidate sources

As a team, determine which positions are critical to continued operations and define the required skills and experience for successor candidates. Next, consider how you would source candidates for the positions. For example, if you want to look internally, consider making a short list of candidates who are already qualified or could be qualified with some additional training should the need arise. If you need to look externally, determine how, when and where you would market the position and whether or not a third party recruiter is needed.

Ensure adequate coverage

Determine how to ensure adequate staff/volunteer coverage during a staff shortage period and how to quickly onboard the successor candidate. When possible, it is ideal to allow the successor candidate time to work side-by-side with the individual they are replacing. This enables them to benefit from the experience and institutional knowledge of the individual who is leaving and helps them to get comfortable in the new role. However, in situations where this is not possible, you may consider cross training your staff to assist in the transition, bringing on a temporary professional, or outsourcing specific duties to a third-party provider.

Develop the plan

Once the team has evaluated the options and determined how to handle future succession issues, develop your plan in written form.

Continuous improvement

Once your plan is created, ensuring consistent implementation and continuous improvement are the keys to successful transitions. Although personnel situations are often unpredictable, your Chapter can be best prepared by completing the above steps and making succession planning a strategic priority.

D. Communicating Financial Information Throughout the Chapter

Each member of a Chapter team should learn to embrace the role of financial management as a critical step on the path to achieving the Chapter's mission. However, it can be a challenge to communicate financial information to non-finance professionals. To instill this understanding throughout the organization, it starts with the Chapter's management. It is especially important for the Organizational Leader to use financial information in a meaningful way.

In many nonprofits, CFOs and their staff are the only members of the organization with any formal training in accounting or finance. In addition to the role they play as finance experts, they also play an important role in communicating financial information within the Chapter and outside of the organization. The primary method of communicating financial information both to those inside the organization and to those outside of the organization are the financial statements.

Nonprofit financial terms and meanings

Ideally, all staff and volunteers with any financial-related responsibility at any level should be aware of the following basic financial terms and their meanings.

Assets	Assets are economic resources controlled by or owned by an entity to meet its objectives in future periods. While most assets are tangible (e.g., equipment, facilities and claims on cash), some intangible legal and accounting entitlements (e.g., patents and goodwill) are also regarded as assets.
Asset allocation	The starting point for investment portfolio construction involves defining the asset classes that constitute the portfolio and determine the proportion of funds to be invested in each class. Traditional asset classes include domestic equities, foreign equities, and fixed income, although many nonprofit organizations now use alternative investments such as hedged equity, absolute return instruments, real assets, and private equity. The Chapter's Investment Policy describes the target allocation to each of the asset classes that the Chapter invests in.
Audit	A financial audit is the review of the financial statements of an entity resulting in the publication of an independent opinion on whether those financial statements are relevant, accurate, complete and fairly presented. Financial audits are typically performed in accordance with Generally Accepted Accounting Principles (GAAP) by firms of practicing accountants due to the specialist financial reporting knowledge they require. The financial audit is one of many assurance- or attestation-functions provided by accounting and auditing firms, whereby the firm provides an independent opinion on published information.
Balance Sheet *(Statement of Financial Position)*	The purpose of the Balance Sheet is to provide current fiscal information that can help leaders understand more clearly the financial status of the organization. It describes the financial position of the organization on a given date, by listing the types and amounts of its assets, liabilities, and equity. The relationship between the assets, liabilities, and equity can be seen in the following equation: ASSETS = LIABILITIES + EQUITY. The Balance Sheet received its name from that equation since the assets of an organization must be equal to the total of its liabilities plus equity. This equation, which is known as the accounting equation, is basic to understanding the Balance Sheet and accounting. The Balance Sheet in the nonprofit organization functions the same as a corporate Balance Sheet except for the treatment of the organization's equity. Since there are no owners or stockholders in the nonprofit organization, the equity account is referred to as net assets (assets minus liabilities). The nonprofit Balance Sheet is generally referred to as the Statement of Financial Position. Like the for-profit Balance Sheet it shows assets, liabilities and equity (net assets).
Budget	A budget is a quantitative expression of management's plan, which presents the intentions and objectives at all levels of the organization, and provides a vehicle for monitoring and controlling the implementation of those plans. Most nonprofit organizations prepare an annual operating budget that addresses operating expenses and the revenue needed to support those expenses. Many organizations also prepare a capital budget which is a plan for renovations, refurbishments, new facilities and large equipment acquisitions. Perhaps less common, but an important tool in financial management is the cash budget, which plans for cash needs throughout the planning cycle.

Business plan	A business plan is a written document that summarizes an organizational opportunity and defines and articulates how the management team expects to seize and execute the identified opportunity.
Capital budget	A capital budget is a tool used to define the sources and use of funds needed for activities such as renovations, refurbishments, new facilities and large equipment acquisitions. Like the operating budget, the capital budget is a planning and control document. Unlike the operating budget, which covers a planning period of one year, the capital budget generally covers several years.
Capital campaign	A capital campaign is a philanthropic term for the strategy to raise a set amount of money incidental to the donation.
Capital structure	Capital structure is defined as the mix of debt and equity that an organization would like to have to finance its noncurrent assets, sometimes referred to as fixed assets. In for-profit corporations, this composition includes debt, stock issuance (equity capital), and retained earnings. The attributes, risks and rewards of each are identified from the point of view of the investor, as well as that of corporate management. The appropriate capital structure helps the corporate management move toward its primary objective of maximizing share-holder value. In nonprofit organizations, the equivalent of 'equity capital' is 'net assets' which are not available for financial gain to any investor. These net assets are used to further the mission of the organization.
Cash budget	Although a balanced operating budget is important, it is not the only significant aspect of cash management. Cash inflows and cash outflows must be planned so that employees and vendors can be paid in a timely manner. The cash budget (also known as the cash flow projection) gives management the critical information about the cash inflows and outflows to ensure that there will be enough cash available to operate the organization within the context of its plans.
Controls	The process through which managers assure that actual activities conform to planned activities. In planning an organization's activities, the fundamental goals and objectives and the methods for attaining them are established. The control process measures progress toward those goals and enables managers to detect deviations from the plan in time to take corrective action.
Current assets	Current assets are assets that can be reasonably turned into cash or received within a year. Current assets minus current liabilities are generally referred to as working capital.
Current liabilities	Current liabilities are obligations an organization owes within the next year. When current liabilities are subtracted from current assets the result is considered the organization's working capital.
Debt	Debt is an obligation or liability to pay or render something to someone else. Long-term liabilities incurred to renovate or purchase land, building(s) or equipment are generally referred to as debt.

Earned income	This classification of income received by a nonprofit organization is considered "earned" because of a specific activity undertaken by the organization.
Endowment funds	Funds available to a nonprofit organization that can be invested for the purpose of generating income are generally referred to as an endowment. Permanently restricted endowments are funds where the principal cannot be spent; they are given by a donor to provide the organization with a regular source of investment income. At times the governing board may designate certain unrestricted funds to be invested or function as an endowment. Although these funds are invested under the endowment investment policies of the organization, they are not permanently restricted by the donor, so they are not true endowments. Only the original donor can place a permanent restriction on funds.
Financial management	Financial management is concerned with managing the resources of an organization for the purpose of influencing the future outcome of its operations. Specifically, financial management in a nonprofit organization plays a major role in measuring the financial requirements, acquiring the funds to meet those requirements, and making certain that the funds acquired are properly employed.
Financial structure	The organization's financial structure can be thought of as the right side of the Balance Sheet which details how the assets of the organization are financed including debt (liabilities) and equity (net assets).
Income Statement *(Statement of Activities)*	The Income Statement shows whether a business earned a profit or experienced a loss during a select fiscal year. It lists all revenues and expenses of an organization and the resulting profit and/or loss for the period reflected on the statement. An "official" Income Statement is generally presented once a year, although larger corporations issue interim reports each quarter and nearly all companies prepare monthly Income Statements for their internal purposes. Like the for-profit organization, nonprofit organizations also produce an Income Statement, in many countries these statements are referred to as the Statement of Activities. The Income Statement measures the performance of the organization during the reporting period. Revenue and support are shown in major categories such as contributions, program-related income, or investment income. Expenses incurred in the operations of its programs, management and general support, and fundraising are included on the statement. Like the for-profit Income Statement, the Statement of Activities subtracts expenses from revenue to arrive at a net income. However, in the case of nonprofit organizations, net income is often referred to as the net change in net assets.
Investments	Investments are monetary assets purchased with the idea that the asset will provide income in the future. See Endowment funds and Asset allocation.
Liabilities	Liabilities are claims for specific amounts, secured or unsecured, held by outsiders against the organization. Examples of these claims are accounts payable, bank loans, mortgages, and bonds outstanding.

Liquidity	Liquidity refers to how quickly and cost-effectively an asset can be converted into cash. Money (in the form of cash) is the most liquid asset. Assets that generally can only be sold after a long exhaustive search for a buyer are known as illiquid.
Net assets	Net assets are the difference between total assets and total liabilities of a nonprofit organization, as shown on the Balance Sheet.
Noncurrent assets	Unlike current assets, noncurrent assets are long-term in nature and could not reasonably be converted into cash or consumed within a year. Examples of noncurrent assets include the endowment fund, other investments, land, building and equipment.
Noncurrent liabilities	Noncurrent liabilities represent long-term claims against the assets of the organization. Examples of noncurrent liabilities include mortgages and notes payable.
Operating budget	The operating budget generally includes all regular unrestricted income available to the nonprofit organization as well as those funds that are restricted for specific purposes by donors. The expenses in the operating budget generally includes salary and wages, employee benefits, direct program expenses, management and general expenses and fundraising expenses. The planning period for the operating budget in most organizations is one year.
Statement of Cash Flows	The Statement of Cash Flows provides information about the sources and uses of cash during the reporting period. This financial statement provides relevant information that supports the Income Statement: the organization's liquidity, flexibility, ability to meet obligations and need for external financing.
Strategic plan	Strategic plans apply to the entire organization. They establish its overall objectives, and seek to position the organization in terms of its internal and external environment.
Working capital	Working capital is the difference between current assets and current liabilities. Since most nonprofit organizations consider "current" to be defined as a 365-day period, working capital is a measure of current assets available to pay current liabilities. Working capital can also be measured by the current ratio which is defined as current assets divided by current liabilities. The current ratio is a widely-recognized measure of liquidity.

Nonprofit Finance Glossary

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Finance and Fundraising

RMHC HAS A COMMITMENT TO OPERATING WITH TRANSPARENCY AND accountability. In an era of ever-increasing regulatory oversight and intense scrutiny by watchdog groups, funders, and the public in general, voluntary full disclosure of the Chapter's financial activities, fundraising practices and governance is essential to earn the public trust.

Fundraising is the cornerstone of most nonprofit organizations' revenue structure. Fundraising may include several methods of securing funds for the organization, such as direct mail solicitation, online fundraising, grants, special events, corporate sponsorships, major gifts from individuals, and planned gifts that come to the organization through wills or bequests and other contractual instruments.

It is critical that all Chapters comply with local rules, regulations, laws, and restrictions associated with fundraising activities. In addition to Chapter leaders, the board of directors have a responsibility to ensure that the Chapter follows all requirements imposed on its fundraising activities.

STANDARDS

7.1 ***There is compliance with all legislation relating to fundraising activities, including registering in every state where required by local laws.***

7.2 ***Fundraising practices are consistent with RMHC Guiding Principles for Financial Management and local ethical fundraising guidelines.***

7.3 ***There are practices in place to ensure donor restrictions on use of funds are honored, including the maintenance of donor documentation requesting restrictions.***

7.4 ***Staff responsible for Chapter finance and fundraising/development regularly review fundraising activities based on analysis of return on investment (ROI) and cost to raise a dollar to ensure the optimization of fundraising strategies and activities.***

Throughout the Guide, these icons highlight important information, reference other RMHC guidebooks, and provide links to additional resources available to download.

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Activity


For more information *(hyperlink)*


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Tools and templates to download *(hyperlink)*

GUIDELINES

A. Compliance and Fundraising

It is important for Chapter leaders to become familiar with solicitation laws and regulations where they operate as rules not only vary from country to country, but also state to state and province to province. Finance staff must see that appropriate systems are in place to record fundraising activities and to safeguard the funds that come into the organization because of fundraising activities. In addition to these basic accounting and reporting responsibilities, finance staff is also charged with seeing that appropriate fund-raising compliance is in place. This will require strong communication between Chapter management, fundraising professionals, and finance staff.

In addition to compliance with laws and regulations that Chapters may be required to fulfill, compliance is a primary duty of the board of directors. The board of directors should be active and informed, and work to ensure that funds raised by the Chapter are used to forward its mission and for the stated purpose under which it was raised. Board members are expected to know and follow solicitation laws and regulations as part of their duties as members of the board.

Compliance with solicitation laws and regulations also helps to preserve the reputation of the nonprofit organization and its individual officers. It is important for board members and Chapter leadership to remember that noncompliance can tarnish the reputation of the organization and the reputation of individuals within the Chapter. Some government agencies publish lists of delinquent charities on their websites. Noncompliance may result in a public relations backlash where donors and other funders lose confidence in the organization and withhold further contributions. Because nonprofit organizations, including RMHC Chapters, rely on support from donors and other funders it is important to maintain a high level of integrity when it comes to complying with fundraising laws and regulations.

Special fundraising events

Many Chapters use special fundraising events (special events) such as galas, dinners, and golf tournaments to raise awareness and attract donors to support their programs. These events can generate a great deal of excitement, but they can also be expensive and create problems for the Chapter if they overlook compliance issues.

When Chapters collect money for the special event by selling tickets to a gala or accept registration fees for a golf tournament, typically only the portion of the funds received that exceed the fair market value of goods and services provided to the donor may be deducted as a charitable contribution. In some countries, Chapters are required to send donors a disclosure statement that provides an estimate of the fair market value of goods and services they receive at the event when the donor's payment is more than a set amount. Chapter fundraising staff should check with local tax laws and regulations to be sure the Chapter is in compliance.

Foundational Area of Focus #4. Financial Accounting, Reporting and Metrics

Corporate sponsorships

Another way Chapters raise money is to ask local businesses to sponsor a program or special event activity. Again, Chapter management should check local laws and regulations related to the tax treatment for corporate sponsorships. In some cases, the value of goods and services provided in exchange for a sponsorship may require the sponsor to deduct the value of those goods and services and claim only the amount over and above the value of the goods and services received as a tax-deduction.

Cause-related marketing /Commercial Co-Venture (CCV)

When a for-profit business announces to the public that a portion of the purchase price of a product or service it sells will be donated to a charitable organization, this arrangement is generally known as a commercial co-venture ("CCV"). The portion to be paid to the charitable organization is usually a contractually agreed upon amount or percentage of the sale proceeds, resulting in a charitable contribution by the for-profit business. For example, retailers often promote a time period where a percentage of every purchase of designated items will be donated to a charitable organization. This would be considered a CCV and is also known as cause-related marketing.

Laws and regulations for CCVs can vary from state to state, country to country or province to province, so it is important for all Chapters to check the laws and regulations for CCV's in your area. In many cases, a contract is required to be in place between the charitable organization and the for-profit business before the for-profit business announces the promotion to the public. There also may be registration and reporting requirements for both the charitable organization and the for-profit business before, during and after the promotion. Failure to comply can lead to fines and even criminal penalties in some places. The purpose of these regulations is to help protect both charitable organizations and consumers who were promised that a portion of their purchase price would benefit a charitable organization.

Professional fundraisers or solicitors

Hiring outside fundraising help can impose specific charitable solicitation registration requirements on both the charitable organization and the contracted fundraiser. Laws can vary by state, country or province, therefore, it is important to understand how the regulations impact your Chapter.

Professional solicitors or professional fundraisers actively participate in solicitation, which is the act of asking for funds. Solicitation can take the form of personal requests for donations as well as emails, phone calls, letters, advertisements, or appeals on websites or social media. It's important to note that a solicitor doesn't have to collect or handle funds in order to be considered a solicitor. The act of asking is enough.

Fundraising counsel or consultants provide advice on fundraising strategies or help with managing a charitable campaign. They don't actively solicit donations. The compliance requirements for fundraising consultants are generally less stringent than that for professional solicitors.

It is common for local regulations to require that the professional solicitor file a copy of its contract with the charitable organization before the solicitation begins. Charitable organizations are also subject to local filing requirements so it is important to check the laws and regulations that govern your Chapter in this area.

While fundraising professionals are responsible for their own registrations, it's wise to ensure that any professionals you hire are fully compliant with requirements in areas where you solicit.

Online fundraising

The advent of social media, email and "donate now" buttons on websites has made it easier for nonprofit organizations to solicit donations online. If your Chapter conducts online fundraising, Chapter management must research the laws and regulations in their country, state or province that relate to online solicitation. For example, in the United States and Australia, Chapters that fundraise online through a website are required to register in all the states that require it. Failure to do so could result in fines or penalties for your Chapter. Fundraising laws and regulations can be overwhelming, but being proactive and aware of the requirement is the first step to compliance.

Third-party fundraisers on behalf of the Chapter

Third-party fundraisers are events in which individuals, businesses, groups, or schools raise funds on behalf of a charity. These events are not hosted, organized, or paid for by the benefitting charities, but the proceeds generated from these third-party fundraisers support the mission of such selected charity.

It is recommended that Chapters have a policy with guidelines for third-party fundraisers that can be shared with the individual, company or group before they conduct a fundraiser on behalf of the Chapter. The Chapter should approve the fundraiser and enter into an agreement with the individual or group doing the fundraising in advance of it taking place to ensure expectations are clear and that the event is aligned with the mission of the Charity. At times, Chapters may not be aware of the third-party fundraiser until after it has occurred. Posting the third-party fundraiser guidelines on the Chapter website can help increase their visibility and likelihood that the individual or group will access them in advance of conducting the fundraiser.

Templates for third-party fundraiser guidelines for both when RMHC will be involved in the fundraiser and when RMHC will not be involved in the fundraiser have been created for Chapter use and can be downloaded at the end of this section. Some important things to note:

1. RMHC should only be identified as the beneficiary of the activity/event. For example, activity/event organizers should not call an activity/event "Ronald McDonald House Charities Walk-a-Thon", as this implies that it is being organized by the Charity. Instead, the activity/event should be promoted as the "Walk-a-thon to benefit Ronald McDonald House Charities."
2. The third party fundraiser, not the Chapter, is conducting the event and is therefore responsible for compliance with all local laws governing charitable fundraising, gift reporting and special events. This includes obtaining insurance certificates and permits and licenses for raffles or games of chance when required by local regulations.
3. The Chapter should not provide its sales tax exemption or charitable solicitation license to the third-party fundraiser as local law typically stipulates that it only be used for Chapter organized events/purchases.
4. Any promotional materials should be approved in advance by the Chapter, and they should indicate that the net proceeds of the event will be donated to the Charity. If a specific percentage of proceeds from the event is going to the Charity, that should be stated in the materials.
5. In general, donations made to a third-party fundraiser who is not a registered, tax-exempt organization, will not be deductible for income tax purposes. If the payments are made directly to the Chapter (i.e., checks made payable to RMHC), they are typically tax deductible if the donor is not receiving any goods or services in return. Chapters should consult local tax regulations to confirm local law.
6. The agreement with the third-party fundraiser should indicate when the Chapter will receive the proceeds from the event. The Chapter should also receive documentation supporting the amount received, including total amount raised and expenses deducted, if any.

Third-Party Fundraiser Guidelines Templates

B. Donor Restrictions

Contributions received by nonprofits, including RMHC Chapters, may be either unrestricted or restricted. Unrestricted gifts can be used for any purpose consistent with the Chapter's mission. However, restricted donations must be used for the purpose indicated in the gift instrument. The gift instrument is a document describing the required use of the restricted funds. Often the gift instrument is in the form of a letter from a single donor. The decision to place a restriction on the donation is not at the discretion of the Chapter's board or staff, rather it is at the donor's discretion and often is in response to a request made by the nonprofit organization. Regardless, once the restriction is placed on the donation, the nonprofit is obligated to spend the money for the restricted purpose.

Before accepting a financial donation with a donor-imposed restriction, Chapter leadership should discuss whether or not the organization is in a position to meet the restrictions: does the Chapter have infrastructure in place to properly steward the donation? Is the requested use of the donation consistent with the Chapter's mission, values and activities? Does the Chapter have the capacity to sustain the activity required of the restricted gift?

RMHC Chapters that receive donor-imposed restrictions have a responsibility to comply with ethical practices and generally accepted accounting principles related to the restricted donation. Once donor imposed restricted donations are received, the Chapter's finance and fundraising staff must work together to ensure that the donation is properly receipted, recorded in the accounting records, and expended with in the limitations of the donor restrictions.

Donors are the only ones who may restrict donations to the Chapter. The board of directors can designate unrestricted net assets to be used for a specific purpose, but this does not result in restricted net assets since the designation may be reversed by the board. However, the board cannot "unrestrict", or remove the restriction, from donor-restricted gifts.

It is important to remember that a restriction results from the donor's intent and direction. All statements made by the Chapter in its fundraising appeal about the use of a gift must be honored by the Chapter. A donor's intent and direction may be expressed explicitly or implicitly.

Explicit restrictions

Often the donor's restrictions are explicit. For example, the donor may send a letter to the Chapter specifying how the donation is to be used. Also, if the Chapter includes a response form with a request to support its program, the gift is restricted if the donor checks the box on the response form stating that the gift will be used in a certain way.

Implicit restrictions

Donor restrictions can be implied if circumstances surrounding the donation make the donor's intended restrictions on the use of the funds clear. For example, a Chapter fundraising staff member verbally communicates a specific need of the Chapter, such as needed repairs to the House elevator, and in response the donor writes a check to the Chapter. Even if the donor did not indicate the purpose on the check on a response form, the solicitation request and the immediate gift constitutes an implied donor restriction that the funds be used for the need communicated by the Chapter fundraising staff.

Donor restrictions must be determined based on both the solicitation and the donor's response to the solicitation. The solicitation and donor response must be considered as a whole. The donor's intent relates to both what was communicated in the Chapter's appeal and to any donor instructions accompanying the gift. Once the donor has indicated their intent, the Chapter is responsible to fulfill the intent or restriction placed on the gift by the donor.

c. Fundraising Return on Investment

There is great public interest in charitable organizations' fundraising costs. Reports on costs tend to focus on cost ratios (fundraising costs as a percentage of funds raised or as a percentage of total expenses). Critics contend that reporting cost ratios is too simplistic to be meaningful in comparing organizations that may have very different circumstances.

Chapter boards and management have a responsibility to ensure that their organization's return on investment (ROI) in fundraising is reasonable through good internal management practices, and through a belief that fundraising is an investment in achieving the goals, objectives and anticipated outcomes described in the organization's strategic plan.

The accountability of nonprofit organizations to their stakeholders is also an important aspect of good governance in these organizations. While there are many measures that an organization may use internally to evaluate the effectiveness of its fundraising strategy, there are three measures of fundraising effectiveness, which together, provide a more complete picture of an organization's fundraising health.

1 Total fundraising net

Total fundraising net represents the amount of money available to spend on an organization's mission as a result of its fundraising efforts. This is the bottom line measure of fundraising success. If it's not enough to fund the organization's work, then the other two measures are irrelevant. Here's how it's calculated:

TOTAL AMOUNT RAISED – TOTAL FUNDRAISING EXPENSE = TOTAL FUNDRAISING NET

Example: If an organization raised US$1,000,000 and spent $200,000 on staff and other expenses to raise it, the total fundraising net is US$800,000 (US$1,000,000 – US$200,000).

2 Dependency quotient

A measure of risk, the Dependency Quotient measures the extent to which an organization is dependent on its top donors to fund its work. It's an indicator of how vulnerable the organization could be in the face of changed priorities among its top funders. Generally speaking, organizations would seek to have a lower Dependency Quotient, indicating that they are more resilient to changes in top donor giving. Here's how it's calculated:

SUM OF CONTRIBUTIONS FROM 5 LARGEST DONORS OR FUNDERS / ORGANIZATIONAL EXPENDITURES = DEPENDENCY QUOTIENT

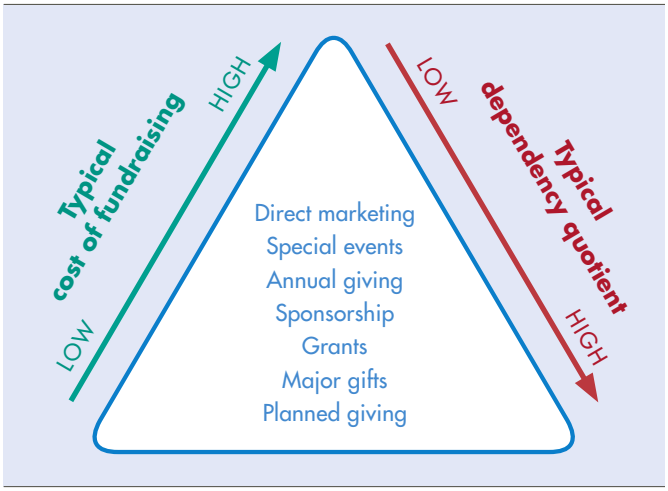
Example: If an organization's top five donors contributed US$250,000 during the past three years, and the total organizational expenditures for the same three-year period were $1,000,000, then its Dependency Quotient is 25% (US$250,000/US$1,000,000), meaning it would have to replace 25% of its revenue budget if it lost its top five donors.

3 Cost of fundraising

A measure of efficiency, this measures how much it costs to raise money within the nonprofit organization. While some organizations calculate it differently, RMHC measures the average amount that it costs to net one unit of currency across the entire organization. Organizations would seek to have a lower cost of fundraising, indicating they are investing efficiently in fundraising. Here's how it's calculated:

TOTAL FUNDRAISING EXPENSES / TOTAL CONTRIBUTIONS = COST OF FUNDRAISING

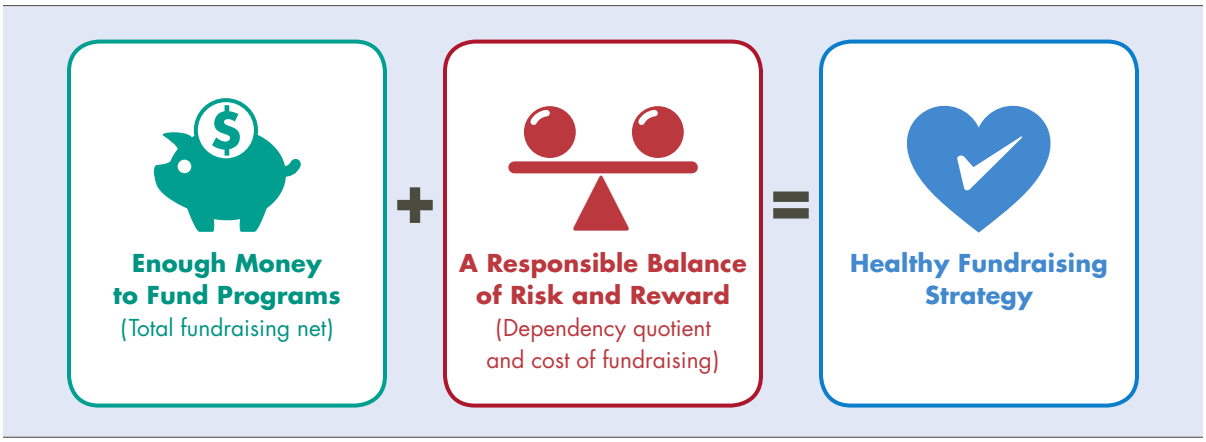
Example: If an organization spends a total of US$50,000 to raise a total amount of US$150,000, then its cost of fundraising is 33% (US$50,000 /US $150,000). Or, stated in US dollars, it spent $0.33 to raise $1.00.



The framework continues by discussing the balance of risk and reward, the tension between dependency and cost. Not unlike an investment portfolio, it is very difficult to achieve both a low level of risk (low dependency quotient) and a high rate of return (low cost of fundraising). And that's because the dependency quotient and the cost of fundraising tend to have an inverse relationship: A low cost of fundraising typically exists alongside a higher dependency quotient, and vice versa.

Why? Because broad-based fundraising efforts—tactics like peer-to-peer, direct mail campaigns or special events—typically bring in a larger number of low- to mid-level donors and tend to be more expensive because of it. This compares to strategies like major gift or foundation fundraising, which tend to bring in a smaller number of large-scale gifts that cost less but leave you more dependent on them.

The illustration below highlights why the cost of fundraising measure should not be the only measure of fundraising used. It's just one piece of the puzzle, and it discourages investment in broad-based fundraising tactics and can actually put the organization at risk. Indeed, when we focus on any one of these measures to the exclusion of the others, we miss the big picture of what a healthy fundraising strategy is really about.



The organizations with the most strategic and sophisticated fundraising strategies work to balance the risks and rewards of different fundraising tactics through a blended portfolio or strategy. They acknowledge that different fundraising tactics have different strengths, and work to build a cohesive strategy that matures and grows over time.

This is why it's important to know that whenever you're looking at an organization's fundraising effectiveness, you're looking at a moment in time, which doesn't necessarily provide the full story of how it might be investing in tactics to yield long-term results. The interdependencies and building of tactics over time point to the importance of looking at results across the entire strategy or portfolio of tactics over a reasonable period of time.

SECTION 6

Accounting and Financial Policies & Procedures Manual Template

A COMPREHENSIVE RMHC ACCOUNTING AND FINANCIAL POLICIES AND Procedures Manual template is provided in an editable Word format for Chapters to customize. This template is based on industry best practices and includes all required RMHC policies as well as many other policies that are not required but may be relevant to Chapter/Program operations.

The template is intended to be used as a guide; therefore, it is not expected Chapters will implement every policy as written. It can provide Chapters with a reference tool to enhance existing policies and if needed help establish new policies that are relevant to an individual Chapter's circumstances.

Policies in the template should be reviewed and customized to incorporate local regulations and practices. It is important that the Chapter go through its regular review and approval process with Chapter management and its board before adopting any new policy. It is also important to check local legislation before discarding any superseded policies as there may be a requirement to retain them for a certain period of time for audit purposes (i.e., for a period of five to seven years).

Foundational Area Focus 5: Financial Policies and Procedures

Template color key

	Editor's note: Read, complete action if relevant and then delete.
	Insert your local information, such as Chapter's name, a timeframe, a number etc.
	Do not remove. It is required for each Chapter to have this policy, but the contents of the policy should be reviewed and customized for each Chapter's circumstances.
	Examples included throughout are based on U.S. law. To ensure local generally acceptable accounting principles (GAAP) compliance please replace with local relevant information.

Accounting and Financial Policies and Procedures Manual Template

Throughout the Guide, these icons highlight important information, reference other RMHC guidebooks, and provide links to additional resources available to download.

Logon to www.rmhcradar.org to access RMHC hyperlinks.

Activity

For more information *(hyperlink)*

Hot tips

Quick reference

Tools and templates to download *(hyperlink)*