STANDARD 3. BOARD ACCOUNTABILITY

A. Board Responsibility

2. The board provides oversight of the land trust’s finances and operations by:
   c. Receiving and reviewing financial reports and statements in a form and with a frequency appropriate for the scale of the land trust’s financial activity

Accreditation indicator elements located at www.landtrustaccreditation.org

BOARD ROLE IN FINANCIAL AND OPERATIONAL OVERSIGHT

The board has the ultimate management and fiscal responsibility for the nonprofit corporation. Board responsibilities include oversight of finances and fundraising, operations, programs, long-range planning, staff and volunteer conduct and public relations. The board of an all-volunteer land trust takes on many of the day-to-day program and operational tasks. The board of a large, staffed organization will focus on setting overall policies and management oversight. Regardless of size, a board that understands and meets its basic responsibilities provides a firm foundation for the land trust, builds public confidence, paves the way for financial success and allows the land trust to focus its energies on creative, effective ways to accomplish its land conservation mission. A strong and informed board leads to a strong and effective organization.

BOARD REVIEW OF FINANCIAL STATEMENTS

While the board may delegate responsibility for in-depth review of the financial statements to the finance committee, the full board retains responsibility for ensuring the financial health of the land trust. All board members should have access to the complete internal financial statements. Whether the board or the finance committee takes responsibility for the in-depth review of the internal financial statements, all board members should receive and review a complete balance
For accreditation, a land trust needs to provide its board with financial reports that the board reviews periodically and that show the following information so that the board can provide oversight of the organization’s finances and operations.

- Net assets without donor restrictions, with board designation and with donor restrictions (such as a statement of financial position or balance sheet)
- Actual year-to-date revenue and expenses as compared to budget (such as a statement of activities or budget-to-actual report), with a level of detail about revenue with restrictions appropriate to the scale of the land trust’s financial activity

The accreditation application needs to include the most recent financial reports provided to the board, along with the minutes from the board meeting at which the board discussed the reports.

Your board and finance committee must determine how frequently internal financial statements should be produced and reviewed. Staffed land trusts will almost certainly want to produce monthly financial reports, while all-volunteer land trusts should produce financial reports at least quarterly. Some boards will prefer having the finance committee review the monthly statements while presenting quarterly statements to the full board. This approach assumes that the finance committee will alert board leaders if monthly financial reports reveal significant issues that the full board should discuss before the planned quarterly presentation of financial information. Many boards of larger land trusts believe review of monthly financial reports is a critical board oversight function.

**Key Issues in Board Review of Financial Statements**

Board members’ review of financial reports should focus on preparing them to answer eight basic questions about the financial health and management of their land trust:

1. *How financially strong is our land trust?* Review of the balance sheet or statement of financial position is the starting point for answering this question. The balance sheet presents the assets, liabilities and net assets of the organization on a specific date. It may also present a comparison of assets, liabilities and net assets at two different dates, for example, the end of the last fiscal year and the end of the most recently completed month. As a starting point for effective review
of the financial reports, board members will need to be clear about the method of accounting used by their land trust (see Practice 6B for a discussion of accounting methods).

In land trusts following Generally Accepted Accounting Principles (GAAP), board members should look first at the total net assets line. Net assets represent the net worth of the organization at the date specified on the statement. It’s helpful to think of net worth as what would be left if the organization gathered in everything it owns of value (cash, investments, land, buildings and so forth), collected all that is owed to it (receivables) and then paid off everything it owes to others (wages, payroll taxes, payables, mortgages and so forth). Net assets are roughly equivalent to owner’s equity in business financial statements. The net assets provide a cushion to fall back on in hard times and can give your organization the reserves it needs to be able to take risks in undertaking new activities.

If the net assets amount is shown in brackets, the organization has a negative net worth, owing more than it owns. If it’s not shown in brackets, the organization has a positive net worth—at least on paper. Like businesses, nonprofits report their land, building and equipment at the amount they cost when purchased (or their fair market value if received as gifts), less accumulated depreciation. This book value can be far from market value, that is, what the land, building or equipment could be sold for today. If the market value is much higher than the book value, the net assets will understate your organization’s actual net worth. If the market value is much lower than the book value, the net assets will overstate your actual net worth.

2. Can the organization meet its obligations on time? Simply having a positive net worth (net assets) doesn’t guarantee that your organization can pay its employees, its payroll taxes and its vendors on time. Paying obligations depends upon the land trust’s cash position or liquidity and the extent to which its funds have a restricted purpose. Look again at the balance sheet (statement of financial position). Create a subtotal of all the cash accounts and any receivables or investments that can readily be turned into cash. Next, look at the liabilities. Create a subtotal for those liabilities, such as accrued wages, taxes and other accounts payable that the land trust must pay within 12 months—this subtotal constitutes your current liabilities. Then compare your cash and cash equivalents subtotal to your current liabilities subtotal.

Does your organization have at least as much or more cash or items that it can readily turn into cash than current liabilities? If so, it will probably be able to meet its obligations on time. If not, it will have difficulty doing so. If it has significantly more cash than is required to meet current liabilities, it is in a good position to take on additional obligations through expansion or taking reasonable risks. Or it may be time to invest some excess cash in longer term investments or operating reserves.
If the balance sheet (statement of financial position) provides information about two points in time—the end of the current month and the end of the previous month or previous fiscal year—you can evaluate whether the cash position (that is, your cash available to meet obligations or invest) is improving or worsening. Compare the cash balances, the accounts receivable and the accounts payable. If the accounts receivable are increasing, find out why. Does the increase simply reflect a higher volume of service and higher amounts being billed, more pledges for contributions being recorded or does the increase reflect difficulty collecting what is owed to the organization? If the accounts payable are increasing, ask for an aging (a list that shows which of the amounts have been owed for 30, 60, 90 or more days). Then determine why payments have not been made and what will be the consequence of further delays.

The current ratio, calculated by dividing total assets that can readily be turned into cash by current liabilities, is a measure of the adequacy of your cash position but it is limited to a point in time. Some lenders require a minimum current ratio of 1.25, meaning that you have $1.25 in assets available to cover each $1 in liabilities. A better tool for making sure that your land trust will be able to meet its obligations on time is the cash flow projection. This projection helps you predict how much cash will be available and how much cash you will need to meet obligations for each of the next 12 months. If your cash flow projections shows that the land trust will not have enough cash to meet its obligations in future months, you will need to develop a plan to increase the cash that will be available or reduce the amount of cash that the land trust needs.

3. **Are there limitations on what the land trust can do with its resources?** While having a positive net worth is clearly better than having a negative net worth, simply noting that the net assets line on the balance sheet is positive doesn’t tell the whole story. Board members will need to ask a few more questions.

Are there restrictions on any portion of your nonprofit’s assets? Your net assets should be summarized into two categories: net assets without donor restrictions and net assets with donor restrictions. You must distinguish between the net assets over which the board has complete discretion from those that must be used in compliance with donor restrictions.

The term restricted refers to a limitation placed on the use of a gift by a donor or funding source. For example, a donor may say “use my contribution only for an outreach program,” or a foundation award may state that the funds may be used only “to meet the costs of restoring a specific streambed” described in your proposal to the foundation. For some gifts, the donor intends that the organization will invest the funds and use the income generated through investment either for specific purposes or for general support of the organization’s activities.
Such gifts are frequently referred to as *endowment gifts*. No matter the purposes of the gifts, the land trust must track the portion of your net assets that are subject to each type of donor restriction. This tracking includes the purpose for which the funds may be used or the timing for their use, as well as any restrictions making the gift an endowment or restrictions that land or other assets be held permanently for specific purposes.

As you think about the land trust’s overall sustainability, the net assets with and without donor restrictions represent different types of financial strengths. The net assets without donor restrictions comprise a cushion that your board has full authority to direct. Parts of it may be immediately available, while other parts are invested in fixed assets or have been designated by the board to function as reserves.

Your net assets with donor restrictions comprise resources that will be available for use in future periods, but donor restrictions will limit how or when your organization may use them. In most cases, donors that restrict the use of their gifts to specific projects or activities or use in specific time periods give with the intention that the land trust will spend their gift. In contrast, the portion of your net assets that donors have restricted to function as an endowment will not generally be available for the land trust to spend. Instead, the donor’s restriction expresses their intention that the land trust will invest their gift and only the income generated through that investment will be available, either with or without further restriction from the donor. Net assets subject to this type of donor restriction do contribute to overall financial strength by representing a future source of investment income to support your work.

If your internal financial statements do not separate net assets into assets with and without donor restrictions, you will need to ask whether a portion of the net assets is subject to donor restrictions. You will also want to learn what portion of your net assets without donor restrictions the board has designated for specific purposes, such as stewardship or an operating reserve. You may want to consider getting help to modify your internal statements so that the donor-restricted and board-designated portions of the net assets are presented clearly.

To fully understand your land trust’s financial health, you will also need to understand both the extent to which your board has full or limited ability to direct the use of the net assets. If the net assets are not donor-restricted, the board has full authority to direct their use. If the net assets are subject to donor restrictions, the board may direct their use only in accord with the restrictions. If the donor restrictions are permanent, the board must focus on its responsibility to invest the resources or care for the restricted assets wisely with the understanding that the restrictions are intended to continue in perpetuity.
Once you are clear about this major distinction between net assets without donor restrictions and net assets with donor restrictions, you will want to focus your attention on the net assets without donor restrictions to consider the extent to which they are available to meet the land trust’s operating costs.

Not all of your net assets without donor restrictions will be readily available to support your operations. The land trust will have invested some of these net assets in land, buildings and equipment (fixed assets). The board may have designated another portion of these net assets to function as reserves – for stewardship, for operations or for other purposes. To understand what portion of your net assets without donor restrictions is available to meet operating needs, you will need to subtract the portion of your total net assets that have been invested in land, buildings and equipment (fixed assets) and also subtract the portion of the net assets without restrictions that the board has designated for specific purposes, such as stewardship reserves or operating reserves. The remaining net assets without donor restrictions are available for operations.

The portion of the net assets invested in fixed assets will not be immediately available to support operations. The land trust would have to sell its fixed assets or borrow against them in order to obtain cash for operations use. As you look at the land trust’s investment in fixed assets, think about how essential these assets are to the organization’s ability to conduct its operations.

Many land trusts show the portion of the net assets invested in property, plant and equipment (sometimes listed as fixed assets or capital assets) on a separate line in the net assets without donor restrictions section on their balance sheet. If your statements do not show this line, you can still determine the portion of the land trust’s net assets that represent investment in fixed assets by finding all the asset accounts (land, buildings, equipment, leasehold improvements and so forth) and finding all the liability accounts related to these fixed assets (mortgages payable used to finance the purchase of property and buildings or notes payable associated with major equipment purchases). To compute the portion of total net assets invested in fixed assets, subtract the liabilities you identified from the assets.

Next, consider whether the board has set aside any portion of the net assets without donor restrictions for specific purposes. Many land trust boards also designate a portion of the net assets without donor restrictions to function as a stewardship or a legal defense reserve. The combination of the board-designated net assets for stewardship and any net assets with donor restrictions for stewardship is an important component of your financial health because, taken together, they indicate the extent to which the land trust has financial capacity to withstand
stewardship challenges and maintain its commitment to ensuring the protection of the land in perpetuity.

Some boards decide to set aside a specific portion of these net assets to function very much like an endowment. The board wants to invest these funds so that investment earnings may be used to support ongoing operations or, in some cases, specific programs or costs. Such funds are described as board-designated long-term reserves. In the past, some boards referred to these funds as board-designated quasi-endowment funds, but this terminology often creates confusion because the appropriate use of the term endowment is for donor-restricted gifts. Because the board has created the quasi-endowment fund through its action, board action may change the fund’s use. This contrasts sharply with the endowment funds with donor restrictions, which the board cannot change.

If your board has designated a portion of the net assets without donor restrictions as a board designated quasi-endowment, these funds will not be immediately available for operations. Instead, your board will need to give very serious consideration to changing the designation and using these resources for current operations.

If your board is considering designating any portion of the net assets without donor restrictions for any purpose, it is important to remember that no board can tie the hands of a future board. What the board has designated can be undesignated by future board actions. Board designation of some portion of the net assets without donor restrictions can be very helpful as a way to document the board’s intention to set aside reserves for specific purposes, such as stewardship or special initiatives. If your board is considering creating such a designation, you will want to be sure that your board minutes record the exact nature of the designation, including the circumstances in which the funds may be used and any special board action that will be required to release funds from the board-designated reserves.

4. *Is our land trust complying with donor restrictions?* In some land trusts, a substantial part of the gifts and grants received carry restrictions attached by donors or grant funders. The restrictions may be either fairly general (use this gift only for the outreach program) or very specific (use this money only to buy trail guides for the outreach program). The statement of activities (income statement) should show when the donor has established restrictions and when the land trust has fulfilled some of those restrictions by incurring the costs that the gift was restricted to cover.

If your land trust uses the standard GAAP reporting format, you will see a distinction between gifts with and without donor restrictions and grants on the statement reporting income and expenses. The gifts or grants that your organization received with donor restrictions will be
presented in a column titled *gifts with donor restrictions* or in a separate section of the statement, clearly labeled as gifts or grants with restrictions. In both approaches, you’ll also see a line at the bottom of the income section that reports on amounts “released” from restrictions and added to unrestricted income. This line indicates that you have complied with the donors’ restrictions and used their funds according to their wishes.

Some land trusts choose not to use the GAAP format for their internal financial reports. If your land trust is not using the GAAP format, you should still be able to see evidence that you are tracking donor restrictions by looking at the balance sheet. There you will see a line item labeled *deferred revenue—grants and restricted gifts received in advance* in the liabilities section. This line item reports on funds that the nonprofit has received with restrictions that it has not yet used for the restricted purposes. When the land trust does use the funds for the purposes directed by the donor or grantor, the deferred revenue line item in the liabilities section will be reduced and the grant income line item on the statement of activities (income statement) will be increased by the same amount. This entry reflects the fact that the land trust has earned the right to use the restricted funds by incurring costs that meet the donor’s restrictions.

Understanding how nonprofits report on receiving and using restricted funds can be challenging, in part because different nonprofits use different methods for presenting this information. If you are not clear how you can see the receipt and use of funds with donor restrictions on your land trust’s financial statements, it will be worthwhile asking an accountant to explain your current system and help you think through whether a different method would work better for your organization.

5. *Is the organization breaking even?* To answer this question, you’ll have to see the statement of activities (income statement). This statement reports on revenues and expenses over a period of time—a month, a quarter or a year. Expect to see both revenues and expenses broken down into separate line-item categories describing the type of revenue (grants, contributions, fees, interest and so forth) and the types of expenses (salaries, taxes, rent, supplies and so forth).

There are two important ways to look at this information. First, look at the bottom line—the net income, which may also be called the *excess (deficit) of revenues over expenses* or the *increase (decrease) in net assets*. If revenues exceed expenses, the net income will be positive. If expenses exceed revenues, the net income will be negative and shown in brackets. This positive or negative net income for the period you are looking at is really the explanation of whether the net worth (net assets) of the organization has grown or shrunk. A positive net
income will result in an increase in the net assets (net worth). A negative net income will result in a decrease in the net assets (net worth).

Another important way to look at revenue and expense information is in comparison to the land trust’s budget for the time period. Hopefully, the land trust has a complete annual budget that shows all the planned sources of income and all the planned types of expenses (see Practice 6A1). You will want to compare the actual revenues and expenses reported on the statement of activity (income statement) to the planned revenues and expenses presented in the budget. Your questions will be, “Are things going as we had planned? Are we generating the income we thought we would? Are we controlling costs within the limits set in the budget?”

You will also want to look at your revenues and expenses in comparison to those you had in prior years. This can be particularly helpful when you have some revenues or expenses categories that do not occur evenly throughout the year. For example, if you have major fundraising activities every year in December, simply comparing your fundraising income and expense to your annual budget in October won’t really tell you if you’re on track. It will be more helpful to compare your current year to past years and especially helpful to think about what percentage of fundraising income was generated by October in previous years, compared to the percentage of your annual budget for fundraising income that has been generated by October this year.

Another useful approach for dealing with revenue and expense items that do not occur evenly throughout the year is to break your annual budget into monthly or quarterly segments. You can then compare your year-to-date income and expenses to your budget plan for this point in your fiscal year.

6. Is our land trust using its resources wisely? This is perhaps the most important question of all. To answer it, you must be clear about your mission and the strategies you have agreed upon to achieve it, and the financial statements must give you enough information to be able tell the purpose of the expenses, as well as their descriptive character. For example, looking at a report that shows that the land trust spent x dollars in salaries for the year tells us the character of the expenses (that is, salaries) but doesn’t tell us the purpose (that is, were the salaries spent for working on acquisitions, stewardship, outreach, fundraising or for administrative functions?). We can get some information about the purpose of expenses through a functional presentation on the statement of activities or through a separate statement of functional expenses. The functional presentation will distinguish expenses for program, administrative and fundraising purposes and, if the organization has several different programs, distinguish the costs associated with each.
With functional expense data you can consider whether the land trust seems to be spending its resources in accordance with its mission and the priorities you established in your strategic plan. If you have prepared your budget in the functional format, distinguishing the purpose (fundraising, management, acquisition, outreach and so forth) for which you will expend funds, you will want to see financial reports that compare the actual expenses for each of these functions to budgeted expenses for each function.

You may want to ask to have some supplemental information included on your financial reports to help you monitor key indicators of both program and financial performance. For example, you may ask to see the information about the progress of various acquisition projects as they move through the pipeline from initial exploration to technical evaluation to price negotiation to fundraising and, finally, to closing. Alternatively, you may want to monitor the number of donors or the percentage of members who renew their membership. Or you may want to track the number of easements monitored in comparison to your goals for the year or in comparison to prior years.

The concept of combining some key financial information with some other key program or fundraising indicators is frequently referred to as a dashboard. To develop a useful dashboard, you will have to identify the variables that make the most difference in your financial outcomes. For many land trusts, these will include the number of donors, donor retention rate and average gift size as key indicators for fundraising and number of easements monitored or acquisition deals initiated and closed as indicators of program success. To be effective, dashboard designers must carefully pick the information to be included to avoid distracting readers with too many variables.

7. *Should we rely on the accuracy of our internal financial reports?* While most readers of financial statements will have to rely on someone with greater accounting knowledge to evaluate the quality of the accounting provided by the organization, there is one simple test to spot obvious problems with your land trust’s accounting.

To do the test, you must have the financial statements for two consecutive periods (January and February, for example). Take the total net assets from the first of the two periods and add the net income (change in net assets) reported for the second period. The answer should be the same number as shown for the total net assets at the end of the second of the two periods. If it’s not, seek help from someone knowledgeable about accounting because your books may not be in balance.
Key Balance Sheet Information for Review

The most effective review of the items described below will require that the balance sheet be presented in comparative format with the balances of all accounts at the end of the prior month being presented in comparison to the balances in those accounts at the end of the current month.

- **Cash.** Determine whether the cash-on-hand balance has increased or decreased compared to the prior month. Ask for a translation of both cash balances into a *days of cash* estimate to facilitate determining whether the cash balance is adequate to meet the land trust’s needs. Ask for an identification of the minimum cash balance required to meet the need for cash in a typical month. If the cash balance or the days of cash on hand have declined significantly, inquire why this is happening and when the land trust will reverse the trend. Ask to review the cash flow projection to be sure it is consistent with what you are told.

- **Contracts receivable.** Compare the current contracts receivable balance to that of the prior month. If the contracts receivable balance has gone up significantly, ask for a schedule of the specific contracts included in the receivables balance and request that the balances at both dates be presented in the *aged* format, which shows what portion of the receivable is 30 days from current, 60 days, 90 days and more than 90 days. Be aware that in many cases, funder delays in paying land trust reimbursement requests are related to problems with the invoices that have been submitted. Ask if the funder has requested revised invoices or provided any other feedback on the cause of the delay in making payment.

- **Accounts payable.** Notice whether accounts payable have increased in comparison to the prior month. If so, ask for a schedule that displays the largest amounts payable by vendor. Ask that the schedule show whether each payment is overdue and, if so, by how many days (30, 60, 90 and more than 90 days). Investigate why the land trust is not paying its bills on time. Pay particular attention to any outstanding payable amounts to health insurance providers or retirement plans. Be aware that there may be legal consequences for failure to pay these bills on time.

- **Payroll taxes payable.** While it is unusual today to see land trusts fail to pay payroll taxes on time, including the portion withheld from the employee’s paycheck and the portion that is the employers’ share, it does still happen. This is an extremely serious situation because payroll tax authorities can impose harsh penalties, and board members may, in certain circumstances, be held personally responsible for unpaid amounts. Ask for a certification that no payroll tax payments are overdue.
• **Net assets without donor restrictions.** Compare the net assets without donor restrictions at the end of the prior month to those at the end of the current month. Notice whether the balance increased or decreased. An increase in net assets without donor restrictions means that the land trust had unrestricted income greater than expenses during the month. A decrease in this category of assets means that the land trust had expenses greater than income in that month. Compare the change in net assets without donor restrictions calculated from the balance sheet numbers with that reported on the income statement (statement of activities). The two numbers should be identical. If not, it may indicate an error in the preparation of the statements. Ask for an explanation of any differences. If your land trust has experienced an overall loss from the year-to-date activity – year-to-date income has fallen short of year-to-date expenses – ask for a year-end projection that shows a plan for managing the finances to avoid a year-end loss.

**More Questions for Boards of Smaller Land Trusts**

Beyond the financial health questions discussed above, boards of smaller land trusts that rely heavily on a single volunteer or staff member without formal bookkeeping training to handle almost all financial functions will need to examine the financial reports in much greater detail. You will want to assign specific board members responsibilities for performing each of the monitoring steps discussed below. In addition, you will need to be sure all who take on parts of these responsibilities are communicating regularly with each other and that one person has ultimate responsibility for resolving any identified problems.

**Steps to Be Sure the Reports Are Accurate**

• Verify that bank reconciliations have been completed for all cash accounts each month and that the balances shown on the financial statements agree with the reconciled balances.

• If you have accounts payable and accounts receivable, be certain that there are lists of all the individual amounts owed or owing that add up to the totals shown on the financial statements.

• If you have acquired equipment, land or buildings, be sure the assets section of your balance sheet reflects these items.

• Perform the test of the connection between the statement of activities and the balance sheet described in the previous section. The *change in net assets (net income)* shown on the statement of activities should be the same as the *change in net assets* computed by
comparing the net assets at the beginning and end of the period reported on the statement of financial position (balance sheet).

- Review the revenue and expense line items carefully. First, compare them to the budget and be sure any significant differences between the actual revenues and expenses and the budget make sense to you. If they don’t, ask the person doing the books to show you the detailed listing of transactions posted to the accounts that have unexpected balances. Review the transactions to see if something has been listed in an improper category. Review the revenue and expense line items to be sure that expenses have been correctly categorized in relation to different projects or funding sources.

How Will the Board Recognize Whether Action is Needed to Protect the Land Trust’s Financial Health?

If your financial reports show a series of losses or if you are aware that the land trust lacks cash when needed to meet payroll and pay bills on time or if you are concerned that you may not be tracking donor restrictions properly, you may want to take your review a bit further, including the following steps:

- Review the revenue line items that have fallen short of the planned level shown in the budget. Consider if the land trust can realistically make up the shortfall in the remaining portions of the year. Avoid wishful thinking! Base your evaluation on specific plans with specific estimates.

- If part of your funding is dependent upon the number of trees planted or acres inspected or on the number of people participating in a program, check the numbers in these areas carefully. If you are not achieving your targets, figure out why.

- Review all significant expense items that are significantly greater than the projected level. Determine whether your annual budget estimate will still prove correct (for example, you have just expended amounts in this category at a more rapid rate than planned, but the annual estimate is correct). Don’t waste time worrying about small expense items like office supplies because, in most cases, the only way to have a significant impact on total expenses is by reducing personnel or professional service expenses.

- Based on your analysis, consider whether you will need to pursue additional strategies to generate the revenue you need or whether you should make reductions in your spending level.
• Review all financial reports you are preparing for funders that have provided restricted grants with great care. Be sure they are based on the numbers in your general ledger and those numbers are correct.

• Be sure you are familiar with the requirements of your agreements with restricted funders. Do you have to obtain their permission to move amounts from one line item to another? If so, your analysis of the reports should focus on identifying any requests for changes you will need to submit to the funder.

• Are any of your grants or contracts “use it or lose it” agreements where your land trust won’t receive funds unless you expend them on specified items? In a “use it or lose it” contract, reducing costs so that you underspend the contract is not helpful to your organization. Instead, if it appears that you are underspending, consider what additional resources the project needs or whether you can make a case to include more of your overall operating costs into the contract budget. Once you have developed a strategy, then you will have to seek approval from the funder.

• Write down your major assumptions regarding the financial statements. Compare these assumptions to your next month’s financial statements. This will provide rapid feedback about how realistic you are being.

• Consider preparing a year-end projection of revenues and expenses. Create the projection by starting with your year-to-date revenue and expenses in each line item and then estimating what additional income will be generated and what expenses will be incurred during the remaining months in the fiscal year. Combine the actual year-to-date information in each line item with your best estimate of what will happen in the remaining months of the fiscal year to create the total year-end projection.

Remember, the longer you wait to make revisions in your plan, the more dramatic the revisions may need to be because you will have less time to benefit from their effect.