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Financial Metrics Every Private Foundation Board Should Review Quarterly

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While a private foundation's finance department is responsible for managing its day-to-day financial activities, the board also plays a key role in providing financial oversight and staying informed about the foundation's financial position.

Financial reporting throughout the year provides board members with the opportunity to keep up to date on the foundation's performance and can help identify any issues that might arise during the year. Private foundations vary depending on the its size and complexity. In this article we discuss financial metrics board members can use as a template for board meetings and discussions.

Grant Commitments Outstanding

Regardless of the foundation's basis of accounting, keeping track of outstanding grant commitments is essential to ensuring grants are paid according to their scheduled terms. Once grants are approved, the board should perform a high-level review of grant activity and monitor whether payments are progressing as expected. Understanding the timing of future payments can help the board evaluate how much of the foundation's resources have already been committed and what remains available for future grantmaking.

Cash Flow Available for Future Grantmaking

Boards should consider both the foundation's overall financial position and its expected cash needs. As discussed above, liquidity is important to ensure the foundation has sufficient resources available to conduct its charitable mission. A foundation's total assets may be substantial, however, the board should also consider how much of those total assets are liquid and available to meet upcoming cash needs.

As part of quarterly financial reporting, the board should consider reviewing a cash flow forecast, which includes current cash balances, anticipated investment income, distributions, capital calls and unfunded commitments, upcoming grant payments, and other expected operating expenses. Regularly reviewing these items can help the board anticipate future cash needs and ensure sufficient liquid resources are available when needed for any investment commitments, any upcoming grant payments and any other operating expenses.

Administrative Expense Trends

Administrative expenses for foundations include items like salaries and benefits, professional fees, investment fees, occupancy fees, travel and meeting expenses, and equipment. Reviewing these expenses quarterly allows the board to identify trends and understand significant changes in the foundation's operating needs. Significant expenditures should also be subject to an appropriate level of review and approval from the board or in accordance with the foundation's policies. This may include items such as executive compensation or contracts that come with substantial expenditure.

Budget to Actual Results

Annual budgets help establish expectations for the foundation's financial activity and priorities for the year. The board should periodically compare budgeted amounts to actual results to help ensure the foundation remains on track to support its charitable mission while also managing and maintaining its financial resources.

Reviewing the budget against actual results throughout the year can help the board identify significant variances and determine whether adjustments are necessary. For example, the foundation may need to increase grantmaking to remain on track with its qualifying distribution requirement. The review can also highlight areas where actual activity differs from initial expectations, providing useful information for current-year decision-making and the following year's budget and planning processes.

Internal Control Observations

Boards should not only review the foundation's financial reporting but also understand and periodically review the processes and internal controls that support it. This includes considering whether the foundation's policies, procedures, and approval and authorization controls are appropriately designed and consistently followed.

The board should also regularly discuss the controls in place to protect the foundation against fraud and cybersecurity threats. These discussions will help identify potential weaknesses and provide an opportunity to strengthen controls before issues occur.

Qualifying Distribution Progress

One of the first items a board should monitor is the foundation's annual distribution requirements. This should be reviewed throughout the year rather than waiting until year end. Monitoring distributions allows management and the board to identify potential issues early on and provides sufficient time to adjust grantmaking if needed.

This can be accomplished by comparing qualifying distributions made to date with the foundation's estimated annual requirement, while also considering any available excess qualifying distribution carryovers that may be used to satisfy the current year's requirement.

Investment Performance and Liquidity

Investments often represent a significant portion of a foundation's assets and are a primary source of income used to support its charitable activities and operations. As a result, investment reporting should monitor both the performance of the investment portfolio and the liquidity of those investments.

Quarterly financial reporting reviews should include consideration of overall investment performance including any significant changes in the portfolio, realized and unrealized gains and losses, and interest and dividend income. Review of these areas can help the board understand and assess changes in investment values and how the portfolio is performing throughout the year.

Liquidity should also be considered by the board during the review of investments. Foundations that hold alternative investments should recognize that these assets may not be readily available to fund grantmaking or operating needs. Reviewing liquidity alongside investment performance can help a board determine whether there are resources available for future expenses and grantmaking without disrupting the foundation's overall investment strategy.

Contact Us

We welcome the opportunity to answer any questions you may have related to this topic or any other accounting, audit, tax or advisory matters relative to private foundations. Please call 212.286.2600 or email any of the Private Foundation Services team members below:

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