

## Financial Responsibilities of a Chapter Board

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Washington, DC

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## Financial Responsibilities of a Chapter Board

- Stewardship
  - Internal controls
- Financial Oversight
  - Financial and Tax Reporting
- Strategic Management
  - Budgeting and Reserves

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## Stewardship

- Internal Control - key principles
- Cash receipts cycle (revenue)
- Cash disbursements cycle (expense)
- More good control practices

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## Internal Controls - Key Principles

- **Segregate** cash receipt and disbursement duties – a “dual keys” concept; when possible
- **WRITE DOWN** standard policies and procedures for processing transactions *AND* have the Board review and approve them
- This is especially important when oversight changes frequently – you want **continuity**



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## Cash Receipts . . .



- ❖ Recommended procedures:
  - Endorse *all* checks “For Deposit Only” upon receipt
  - Keep checks in a locked area until deposited in the bank
  - Get checks into the bank ASAP
  - Anytime *actual cash* is received, TWO people should be present to collect and count it



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## Cash Receipts . . .

- Apply analytic procedures to financial statement revenue items - example:
  - 200 people bought our brochures at \$5.00 each. Why do we show only \$850.00 of brochure sales on our income statement?

$$200 \times \$5.00 \neq \$850.00$$



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## Cash Disbursements . . .

### ❖ Recommended procedures:

- Always require supporting documentation, such as a receipt or vendor invoice, before issuing a check
- Process all payments through one individual – don't have different people writing checks from different accounts
- *Document* who has the authority to approve what types (and amounts) of expenses for payment



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## Cash Disbursements . . .

- On an annual basis, update your bank account signature cards – you may be surprised at who is on them!
- Use an outside payroll service, it should make your life easier
  - Review the payroll and tax filing reports for accuracy



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## Cash Disbursements . . .

- Set up a policy: checks over "X" amount require **at least two signatures** – and let your bank know about the policy
- Compare actual expenses to the budget and prior year & investigate significant differences
- Don't issue too many credit cards



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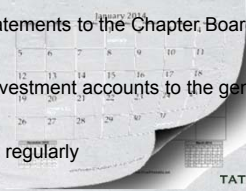
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## More Good Control Practices . . .

- Have a Board member review and initial the *unopened* bank and investment statements or provide on-line access
- Issue complete financial statements to the Chapter Board on a monthly basis
- Reconcile your bank and investment accounts to the general ledger on a monthly basis
- Back-up all accounting files regularly



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## Financial Oversight

- Financial Reporting
- Financial Statements
- Tax Reporting (Form 990)



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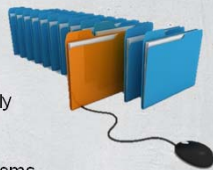
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## Financial Reporting

- A good recordkeeping system is THE key to keeping track of all of your financial relationships
- Your Chapter's recordkeeping system should be **uncomplicated, reliable, accurate**, and should easily generate understandable reports
- If it's not . . . consider changing systems



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## Financial Reporting

“But,” you say, “we hire that stuff out to a bookkeeper.”

- Good records are YOUR business!  
Your financial decisions are only as good as your records
- Cash is usually THE most vulnerable aspect of your Chapter’s operations



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## Financial Reporting

What’s involved? Usually . . .

- ✓ Monthly financial statements distributed to Chapter management
- ✓ Assisting chapter management with the interpretation of the financial statements
- ✓ Preparing “Ad Hoc” reports when needed




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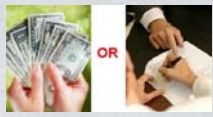
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## Financial Statements

- Financial statements can be . . .
  - Cash Basis
  - Accrual Basis
  - Some combination of the two



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## Cash Basis

- Simplest basis of accounting
  - Revenues and expenses are recorded **ONLY** when CASH is received or disbursed by the organization
  - Although simple to use, cash presents an incomplete financial picture . . . why?
    - ✓ No accounts receivable or
    - ✓ No accounts payable are recorded.



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## Accrual Basis

- More difficult basis of accounting
  - Revenues and expenses are recorded when they are *earned* or *incurred* **REGARDLESS** of when CASH is received or disbursed
  - Although more difficult to implement, presents a complete financial picture - detailing all assets and liabilities



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## Financial Statements

- Two main financial statements:
  - Balance Sheet, or “Statement of Financial Position” – your assets and liabilities at a single point in time.
  - Income Statement, or “Statement of Activities” – what you took in and what you spent, during a given period of time.



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## Balance Sheet

- The Balance Sheet is a SNAPSHOT of one moment in time – it does not tell how an organization arrived at that moment
- Important balance sheet items:
  - Assets
  - Liabilities
  - Net Assets (“net worth”)
- For Chapter’s, focus is most likely:
  - Cash on hand
  - Payroll liabilities



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## Income Statement

- Presents a record of the Chapter’s revenue and expense for a specified period of time.
- Shows *what happened* during a certain period – where did our resources (revenues) come from and where did we use them (expenses)?



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## Stay on Top of Things!

- Monthly: prepare a balance sheet and an income statement
- Monthly: prepare a written analysis of significant financial events
- Periodically: ask the Board what financial information it needs (but is not receiving)
- Non-preparers: *read* your Chapter’s financial statements at least every quarter . . . but preferably every month



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## What to File?

2014 Tax Year and later (Filed in 2015 and later)	Form to File
Gross receipts normally $\leq$ \$50,000 <b>Note:</b> organizations eligible to file the e-Postcard may choose to file a full return	990-N
Gross receipts $<$ \$200,000, and Total assets $<$ \$500,000	990-EZ or 990
Gross receipts $\geq$ \$200,000, or Total assets $\geq$ \$500,000	990



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## What's With This Form 990?

- Form 990 is your Chapter's report to the IRS – both financial and non-financial information
- The 2014 990 is a 13 page, 12-part CORE form with 16 Schedules



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## Form 990 – What's Important?

- Two sections warrant your close attention:
- **Part VI – Governance, Management & Disclosure**
- **Part VII – Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors**



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## Governance . . .

- IRS wants to know about these policies:
  - Conflict of interest policy
  - Whistle-blower policy (Sarbanes-Oxley)
  - Document retention and destruction policy (Sarbanes-Oxley)
  - Investment and/or joint venture policy
  - Gift acceptance policy
  - Compensation policies: salary and benefits



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## Governance . . .

- IRS also suggests these procedures:
  - Contemporaneous documentation of board and committee meetings
  - Full board review of Form 990 *prior* to submission to IRS
  - Board composition reflecting broad public interest, and minimizing potential for misuse



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## Compensation Questions . . .

Schedule J asks questions that apply to persons listed in Part VII:

- List *and explain* "perks" - first class or charter travel, discretionary spending account, etc.
- Explain how CEO's compensation is determined
- Explain severance payments, equity-based compensation arrangements



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## Form 990-EZ . . .

- Much easier than the full 990...why?
- 4 pages (2014) instead of 13
- Compensation section requires *much* less than the full 990 does



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## Form 990-N . . .

- What information do you need to file?
  - EIN, tax year end, legal name and mailing address
  - Any "DBA" names used
  - Name and address of a principal officer
  - Web site (if there is one)
  - Termination/liquidation information (if applicable)



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## Form 990-N . . .

- Due date is May 15<sup>th</sup> of each year
- Fiscals: due by the 15<sup>th</sup> day of the fifth month after year end
- No penalty if filed late, BUT if you do not file one for 3 years running, you *will* lose your Federal tax exemption
- IRS has begun revoking exemptions



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## Strategic Management



- Budgeting
- Reserves


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## Budgeting

- Budgets are extremely important -- they serve two primary purposes:
  - They are tools for assessing an organization's performance
  - They provide a "map" for an organization to follow to achieve its strategic goals




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## Budgeting

- Budgets can be prepared based on prior historical data . . . or "zero-based" (start from scratch)
- Historically-based budgets are easier to prepare but may be less accurate




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## Budgeting

- Budgets should be realistic.
- Pragmatism rules: most budgets start by looking at the past with an eye towards the future
- But! Don't allow the past to become automatically self-replicating



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## Budgeting

- Prepare your budget as early in the fiscal year as possible **AND** get it reviewed and approved by either the Board or the Finance Committee
- Budgets are not effective unless they're followed . . . so . . .
- Review "budget vs. actual" performance on a monthly basis



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## Budgeting

- Investing during financial uncertainty
- You should have an investment policy!
- If you do not, formulate one ASAP!
- If you have an investment policy, follow it!



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## Budgeting

- Investing during a financial crisis –
  - If your board wishes to deviate from the policy, obtain *independent* expert advice
  - Keep your Board continually informed of investment performance, so it can make timely decisions
  - Take advantage of FDIC coverage for your cash wherever you can



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## Reserves - Why ?

- Volatility of operations
- Economics of industry or profession
- Legislative/regulatory environment
- How much is too much?



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## Reserves - Defined

- Does the organization have formal reserve policy or objective?  
Yes = 70% No = 30%  

Yes	70%
No	30%
- If yes, are reserves defined as total net assets (assets less liabilities)?  
Yes = 54% No = 46%  

Yes	54%
No	46%
- What is the reserve target as a percentage of annual operating budget?  
50%  

50%	50%
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Source: ASAE Operating ratio Report (14<sup>th</sup> edition © 2011)



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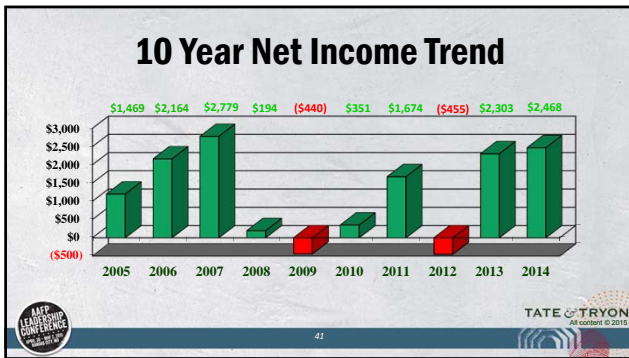
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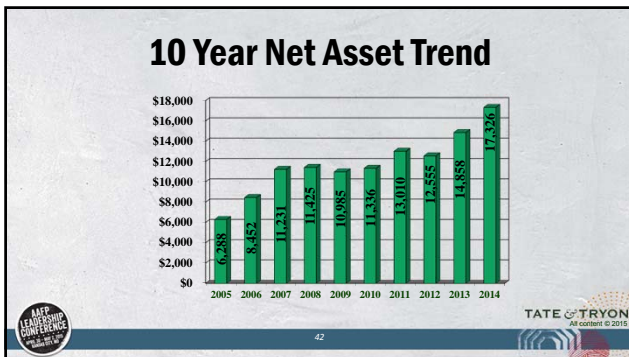
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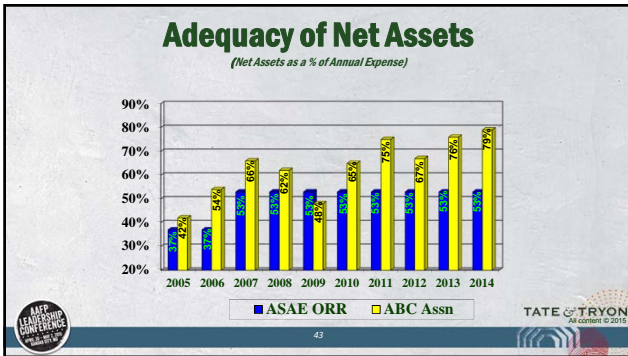
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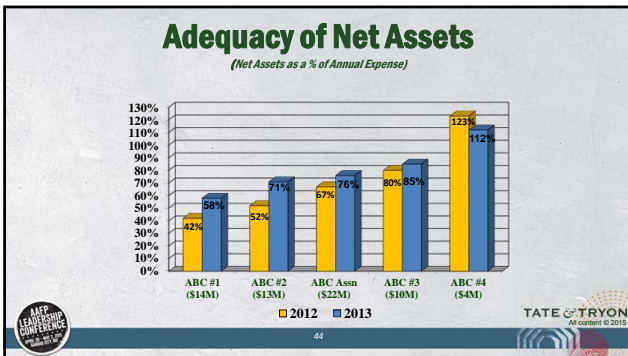
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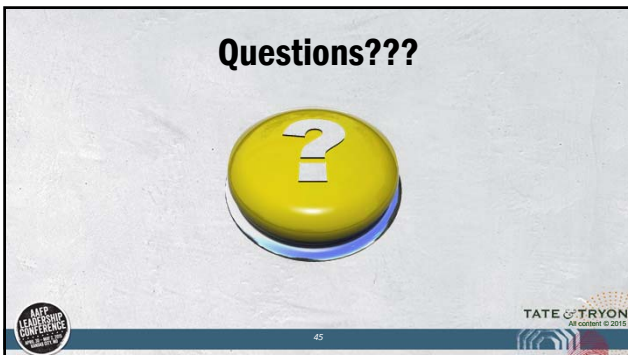
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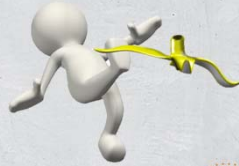
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## A Word or Two About Insurance:

- Two words: have it
- Seven words: If you don't have it, get it
  - Don't be penny-wise and pound-foolish



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## Insurance:

- General liability insurance
  - Products
  - Premise
  - Operations
- "Directors and Officers" (D&O) insurance
  - Wrongful termination
  - Discrimination
  - Sexual harassment



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