

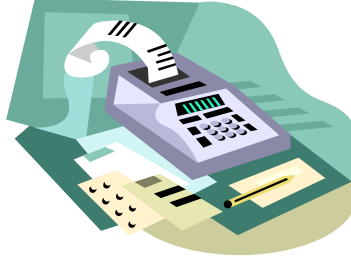
ARE YOU READY TO LEAD THE SMALL ASSOCIATION?

Dollars & Cents: Sound Financial Management



Sharon K. Mellor, CAE
Executive Director
American Academy of Periodontology Foundation
737 N. Michigan Avenue
Suite 800
Chicago, IL 60611
(312) 573-3256
sharon@perio.org

BUDGETING



WHAT THE BUDGET IS:

A plan for receiving and spending money in specific categories to accomplish programs and projects within a set period of time with monitoring and modification mechanisms.

WHAT THE BUDGET IS NOT:

- Meant to hold you captive!

THE BUDGET:

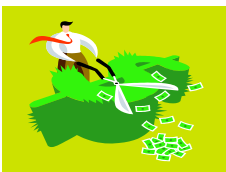
- Assists in _____ administrative and operating activities
- Helps assess your organization's immediate and long-term _____
- Serves as a tool against which actual income and expense results may be compared so _____ can be made
- Useful as one measure of your _____ as executive director.

TYPES OF BUDGETS: Operating, Cash and Capital

SIX STEPS TO CREATING A BUDGET

1. Review mission
2. Set specific goals for each program
 - a. Outcome goals/Activity goals
3. Identify anticipated sources and amounts of income from each program
4. Prepare a work plan for activities, including time frames
5. Identify all resources needed to implement work plan
6. Prepare the budget

TIPS FOR TRIMMING:



- Take a fresh look at vendor relationships.
- Analyze service agreements.
- Look for economies of scale.
- Defer or eliminate.
- Delay.

YOUR BOARD'S ROLE IN THE BUDGET PROCESS

- Develops and reviews mission statements and specific activities
- Prioritizes programs and services
- Establishes budget policies
 - Requirements for a balanced budget
 - Policies on the use of cash reserves
 - Decisions about major expenditures
- Formally reviews and approves budget
- Reviews budget reports and plans for any corrective actions

GOOD BUDGETS ARE:

- 1.
- 2.

- 3.
- 4.
- 5.

OPTIMIZING CASH FLOW



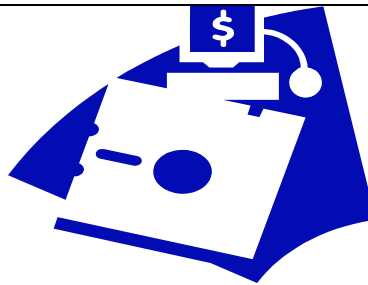
YOUR ORGANIZATION SHOULD HAVE WRITTEN POLICIES FOR:

1. Billing and collection procedures
2. Banking procedures
3. Levels of approval for purchases
4. Procedures for bidding and negotiations with suppliers

STRATEGIES TO ADDRESS NEGATIVE FLOW SITUATIONS:

- Postpone a major purchase
- Establish a payment schedule for a costly purchase
- Send out dues invoices earlier in year
- Transfer funds from a reserve account
- Short-term borrowing
- Begin accepting credit card payments on your website
- On-line bill payment

SELECTING FINANCIAL SOFTWARE



FEATURES TO CONSIDER:

- Interface with other association management programs
- Security features
- Chart of accounts
- Electronic transmission capability
- Capability to manage multiple entities

FINANCIAL REPORTS



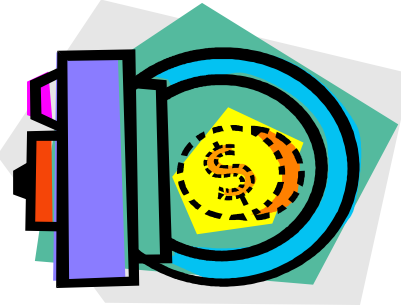
BALANCE SHEET – the window into the fiscal heart of your association!

Short- and long-term assets
Liabilities
Net assets

INCOME STATEMENT--Describes changes in net assets over the fiscal period

STATEMENT OF CHANGE IN FINANCIAL POSITION-- True picture of cash

FINANCIAL CONTROLS



INTERNAL CONTROLS

Two-person segregation of duty:

Executive Director

Sign checks
Complete deposit slips
Perform interfund transfers
Distribute payroll
Reconcile petty cash
Record pledges
Approve time sheets
Prepare invoices
Complete check log

Other Staff Person

Post accounts receivable
Mail checks
Write checks
Post general ledger
Reconcile bank statements
Approve payroll
Open mail/receive cash
Authorize purchase orders
Authorize invoices for payment

Sample list of control procedures:

1. Duties are _____.
2. Checks received are _____ upon receipt.
3. Checks are _____ the same day they are received.
4. _____ are approved before payment.
5. Only original invoices are paid to avoid _____.
6. Each invoice is marked _____ when the check is prepared.
7. Checks have _____ when they go to the signer.
8. _____ are required for checks above our threshold.
9. Proper _____ procedures are used.
10. Supporting _____ is kept on file for transactions.

EXTERNAL AUDITS



Review vs. Full Audit

Factors to Consider When Selecting an Audit Firm

- Industry knowledge
- Price
- Name recognition
- Staff continuity
- Firm size
- Location

Reading an Audit Statement

Opinion letter

Notes

Financials

Current ratio, Cash flow to total debt, Total margin

SAFEGUARDING YOUR FINANCIAL POSITION



OPERATING RESERVES—How much is enough?

MIX OF FUNDING SOURCES

According to the 12th edition of the ASAE's Operating Ratio Report, the smaller the association and staff size, the more it relies on dues income as its major source of revenue.

To put more eggs in more baskets:

- Reach out to new markets with existing opportunities
- Develop new products and services for existing markets
- Reevaluate current offerings to better leverage them

Ideas for more egg baskets for your association:

INVESTMENTS



STRATEGY DEVELOPMENT

- How much money will be available to invest and for how long?
- What portion of funds should be kept safe and liquid?
- What should be the mix of investments for diversification?

INVESTMENT POLICY

Should serve as a road map for percentages of funds to be invested in classes such as fixed income, cash and equivalents, and equities.

Should address acceptable and unacceptable investments, limits on stock purchases of a specific company, minimum ratings for bonds, frequency of portfolio rebalancing, and other issues of concern to the organization.

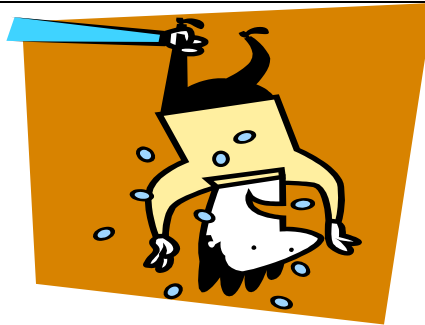
INVESTMENT CONSULTANTS

Add value to your organization by: improving investment performance, helping your board satisfy their fiduciary responsibilities, reducing expenses, providing continuity for an investment committee that has regular changes in its membership, and by helping to develop well-founded investment policies.

Some good questions to ask potential consultants include:

- Why do you want to do business with us?
- What sets you apart?
- What is your greatest shortcoming?
- How would you foresee helping us?
- How many clients have you lost in the past year?
- Why?
- What steps have you taken to eliminate conflict of interest with regard to fund or manager selection?

TAX ISSUES



Being "tax-exempt" doesn't mean that you don't pay taxes!

FORM 990

- List of officers, directors and trustees
- Balance at beginning and at end of year
- Itemization of revenue and expenses by major activity and/or program
- Description of activities

FINAL TIPS FOR SUCCESS



COMMUNICATE WITH YOUR BOARD
KNOW WHEN TO SEEK PROFESSIONAL ADVICE
DOCUMENT, DOCUMENT, DOCUMENT!

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SAMPLE BUDGET CALENDAR

DEADLINE	MAJOR TASKS	RESPONSIBILITY
6/1	Review strategic plans, goals, objectives	Board, ED
6/15	Prepare income and expense forecasts Set budget targets Develop budget policies and procedures	ED, finance committee
9/1	Draft budgets prepared with backup documentation	Staff
10/1	Draft budgets revised in consultation with staff	ED
11/1	Budget presented to finance committee	ED
12/1	Budget presented to board	ED, finance committee
12/15	Distribute approved budget to staff	ED

SAMPLE ASSOCIATION LINE ITEM BUDGET BLANK

ADMIN ANN MEET PR PUBLICATIONS MEMBERSHIP

INCOME
REG FEES

DUES

SPONSORSHIP

ADVERTISING

EXPENSE
SALARIES

BENEFITS

TELEPHONE

PRINTING

POSTAGE

STAFF TRAVEL

VOL TRAVEL

CONSULTANTS

DUES/SUBSCRIP

SUPPLIES

EQUIP RENT

LEGAL FEES

SAMPLE INVESTMENT POLICY STATEMENT OUTLINE
Adapted from (Schneider, DiMeo, & Benoit, 2005)

Introduction

The Investment Policy for XXX Association has been established to facilitate a clear understanding of the investment policy, guidelines, and objectives. The Policy also sets forth the guidelines and restrictions. It is the intention of this Policy to be sufficiently specific to be both meaningful and flexible enough to be practical.

Mission Statement

Spending Policy

The XXX Association will spend 4.5% of its assets each year. These funds will be spent on programs submitted to and approved by the Board of Trustees. The Spending Policy shall be implemented with the intent not only to provide funds for the association's immediate aims but also to preserve and grow assets to meet future spending needs.

Investment Policy

The fund shall be invested to provide for total return. The fund shall be invested in a diversified portfolio, consisting primarily of common stocks, bonds, cash equivalents, and other investments, which may reflect varying rates of return. The minimum acceptable rate of return over a full market cycle of three to five years is that which equals or exceeds the assumed spending rate, plus the rate of inflation. The Finance Committee has established a target return objective which is 8% net of fees, assuming a 3.1% inflation rate.

Investment Objectives

Return. The total return objective, measured over a full market cycle of three to five years shall be to outperform, net of fees, the custom index, made up of 30% Standard & Poor's 500; 15% Russell 2000; 30% Lehman Brothers Aggregate Bond; 15% Europe, Australia, and the Far East (EAFE); and 10% Wilshire Real Estate Index.

Risk. The plan should experience less risk than that made up of a custom index made up of 30% Standard & Poor's 500; 15% Russell 2000; 30% Lehman Brothers Aggregate Bond; 15% Europe, Australia, and the Far East (EAFE); and 10% Wilshire Real Estate Index.

Asset Allocation

The target asset allocation for the investment portfolio is determined by the Finance Committee to facilitate the achievement of the Fund's long-term investment objectives within the established risk parameters. The Plan's assets shall be divided into five major asset classes as follows:

Class	Max %	Min %	Target %
Fixed Income	40%	20%	30%
Large-Cap Domestic Equities	40%	20%	30%
Small-Cap Domestic Equities	22%	8%	15%
International Equities	22%	8%	15%
Real Estate	10%	0%	10%
Cash	39%	0%	0%

The actual asset allocation, which will fluctuate with market conditions, will be regularly reviewed by the Finance Committee. The Committee bears the responsibility for making adjustments in order to maintain target ranges and for any permanent changes to policy.

Cash Flows/Rebalancing

As a general rule, new cash will first be used to rebalance the total fund in accordance with target asset allocation policy. If one asset class reaches the maximum or minimum limit, the entire portfolio will be rebalanced to long-term asset allocation targets. The purpose of rebalancing is to maintain the risk/reward relationship implied by the stated long-term asset allocation targets. This policy may necessitate the purchase and/or sale of securities, which may create transaction costs to the account and the recognition of capital losses.

Evaluation Schedule

Performance reviews will be held on a quarterly basis.

This document is adopted as the Investment Policy for XXX Association Fund.

GLOSSARY OF TERMS

Adapted from (Shim & Siegel, 1997)

- Accrual method of accounting**—The recognition of revenue when earned and expenses when incurred.
- Annual budget**—A budget prepared for a calendar or fiscal year.
- Balanced budget**—A budget in which total expenditures equal total revenue.
- Bond fund**—A fund established for the receipt and distribution of monies received from the issuance of a bond.
- Capital budget**—A budget of proposed acquisitions and replacements of long-term assets and their financing.
- Cash budget**—A budget for cash planning and control presenting expected cash inflow and outflow for a designated time period. The cash budget helps management keep cash balances in reasonable relationship to its needs. It aids in avoiding idle cash and possible cash shortages.
- Cash flow**—Cash receipts minus cash disbursements from an operation for a given period.
- Cost/benefit analysis**—An analysis to determine whether the favorable results of an alternative are sufficient to justify the cost of taking that alternative.
- Current ratio**—Current assets divided by current liabilities.
- Deficit**—The excess of liabilities over assets.
- Endowment**—donated funds to be spent for a general or specific purpose.
- Favorable variance**—The excess of budgeted costs over actual costs.
- Form 990**—A U.S. IRS tax form to be filed by nonprofits under section 501(C) of the IRS code.
- Form 990-EZ**—A simplified U.S. IRS form 990 for use by nonprofits with gross receipts less than \$100,000 for the year and total assets less than \$250,000 at the end of the year.
- Form 990-W**—A U.S. IRS form for reporting estimated tax on unrelated business taxable income, for tax-exempt organizations.
- Fund**—A fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with related liabilities and residual balances, and changes therein.
- Internal control**—The segregation of duties, the safeguarding of assets and of the accuracy of accounting records.
- Line item budget**—A budget typically used by nonprofits in which budgeted financial statement elements are grouped by administrative entities and object. These budget item groups are usually presented in an incremental fashion that is in comparison to previous periods.
- Liquidity**—The ability of current assets to meet current liabilities when due.
- Negative cash flow**—A situation in which cash inflows are less than cash outflows. This situation may result in liquidity problems.
- Net assets**—Total assets minus total liabilities; also called fund balances.
- Net present value**—The difference between the present value of cash inflows generated by the project and the amount of the initial investment.
- Nondues revenue**—Revenue other than membership dues.
- Opportunity cost**—The net benefit forgone by rejecting an alternative. There is always an opportunity cost involved in making a choice decision.
- Payback period**—the number of years it takes to recover your initial investment.
- Present value**—The current worth of future sums of money.
- Rate of return on investment**—Net surplus after taxes divided by invested capital.
- Residual**—The difference between an actual value and its forecast value, also called a deviation.
- Section 501 (C)**--The IRS code under which nonprofit organizations are organized.
- Statement of revenue, expenses, and changes in net assets**—A required financial statement showing operating performance.
- Time value of money**—The value of money at different time periods. As a rule, \$1 today is worth more than \$1 tomorrow.
- Transfer**—The interfund payments or receipts not chargeable to expenditures or credited to income.
- Unrelated business income tax**—Tax imposed under section 1.511 of the IRS regulation on revenues from a trade or business, which a nonprofit constantly carries on and which is unrelated to the tax-exempt purposes of the entity.
- Zero-base budgeting**—A planning and budgeting tool that uses cost/benefit analysis of projects to improve resource allocation in an organization. Cost and benefit estimates are built from scratch, from the zero level, and must be justified.

