

Making Sense of Your State Association's Financial Landscape

**2014 NAEA NATIONAL
CONVENTION
MARCH 30, 2014**

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Some very basics

- Black is always good!
- **Red** is always BAD!

More very basics

- Compliance is always good!
- Creativity with numbers is always BAD!
- Think ENRON & WORLDCOM

You're on the Board....

Now What?

- Articles of Incorporation (association and state)
- Constitution and Bylaws (association and members)
- Policies and Procedures Manual (association and staff)
- IRS Determination Letter (501(c)6 vs. 501(c)3)
- Strategic Plan
- Budget
- Board job description
- Meeting minutes – 1- 2 years
- Tax return (Form 990)
- Financial statements/audit report

Fiduciary Duties

What does this mean?

One of the main responsibilities of board members is to maintain financial accountability of the organization. Board members act as trustees of the organization's assets and must exercise due diligence to oversee that the organization is well-managed and that its financial foundation remains sound.

Treasurer Duties

- Administer investments
- Maintain financial records
- Serve on Finance Committee
- Budget development and presentation
- Develop and present Annual Report
- Financial reporting as required by law
- Providing financial guidance related to Board initiatives
- Developing language in bylaws that deal with financial needs
- Making judgments about the appropriateness of planned and current expenditures

Bookkeeper Duties

- Maintain daily operating expenses and procedures
- Receive and deposit funds
- Track and pay expenses
- Maintain financial records
- Work closely with Treasurer: assist with financial reporting
- Maintain finances for annual conference

Financial Statements

What are they?

- Financial statements summarize an organization's financial position for a given moment, as well as the results for a period, such as monthly, year-to-date, quarterly or annually.
- The financial statements should reflect the variances between the actual operating results and the budgeted goals that were previously approved by your board.

Minimum Requirements

- Statement of financial position (balance sheet)
- Statement of activities (income statement)
- Explanatory notes on those actual financial and statistical elements that vary from the goal (budget)

Balance Sheet

Statement of Financial Position

The balance sheet is a statement of financial position at a particular date in time. Oftentimes you hear the balance sheet described as a “snapshot” of the organization’s financial condition on a given date.

The balance sheet is the only statement which applies to a single point in time instead of a period of time.

Income Statement

Statement of Activities

An income statement is a summary of revenue and expenses and indicates how net revenue is transformed into net income. The purpose of the income statement is to show whether the organization made or lost money during the period reported.

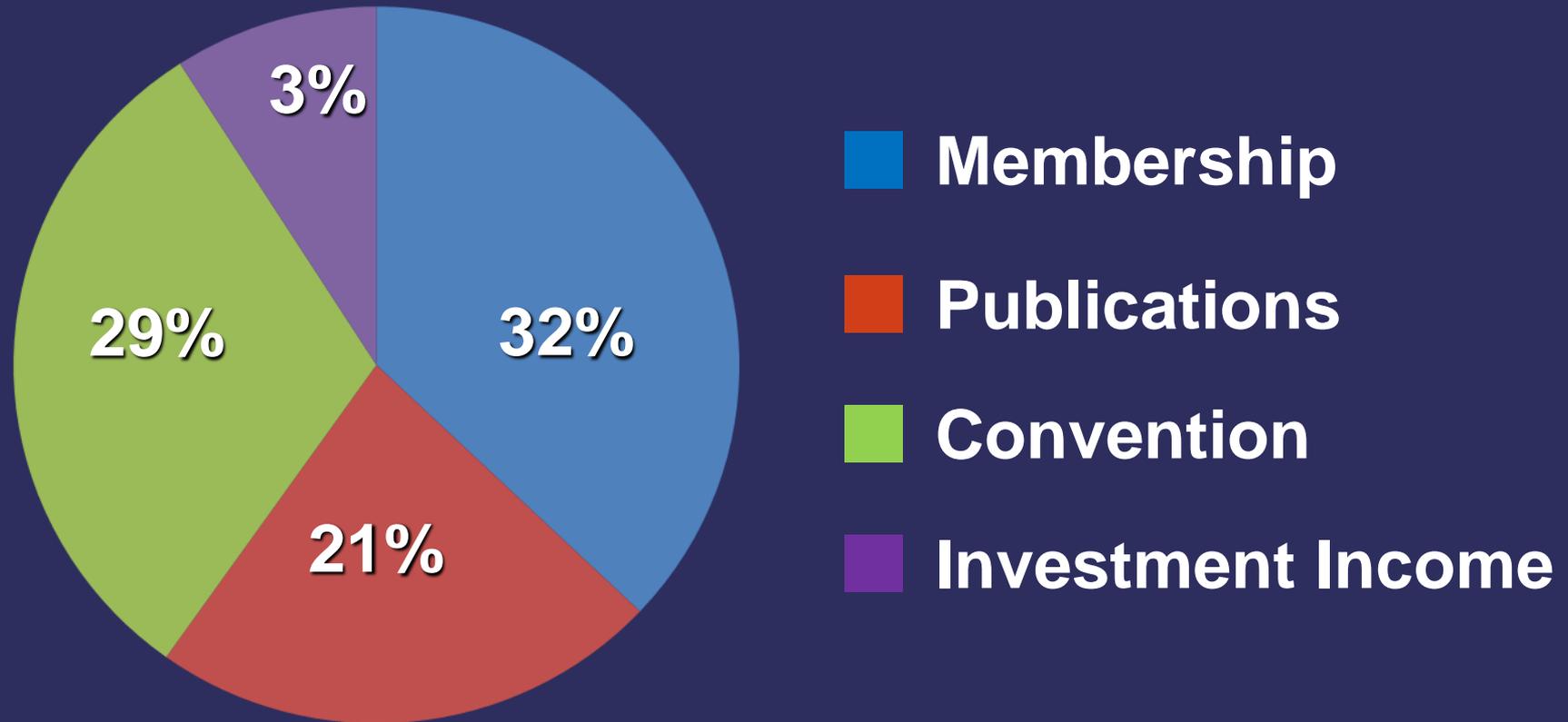
Key Financial Statement Definitions

- Assets: Items your association owns (cash, securities, accounts receivable, inventory, long-term fixed assets)
- Liabilities: Items your association owe (accounts payable, mortgages, notes payable, bonds payable)
- Net Assets: The difference between assets and liabilities

Definitions (Continued)

- Income: Revenues from membership, convention, grants, gifts, and bequests
- Expenses: Costs incurred in the operations of the association
- Financial results: The difference between income and expenses (i.e. net income)

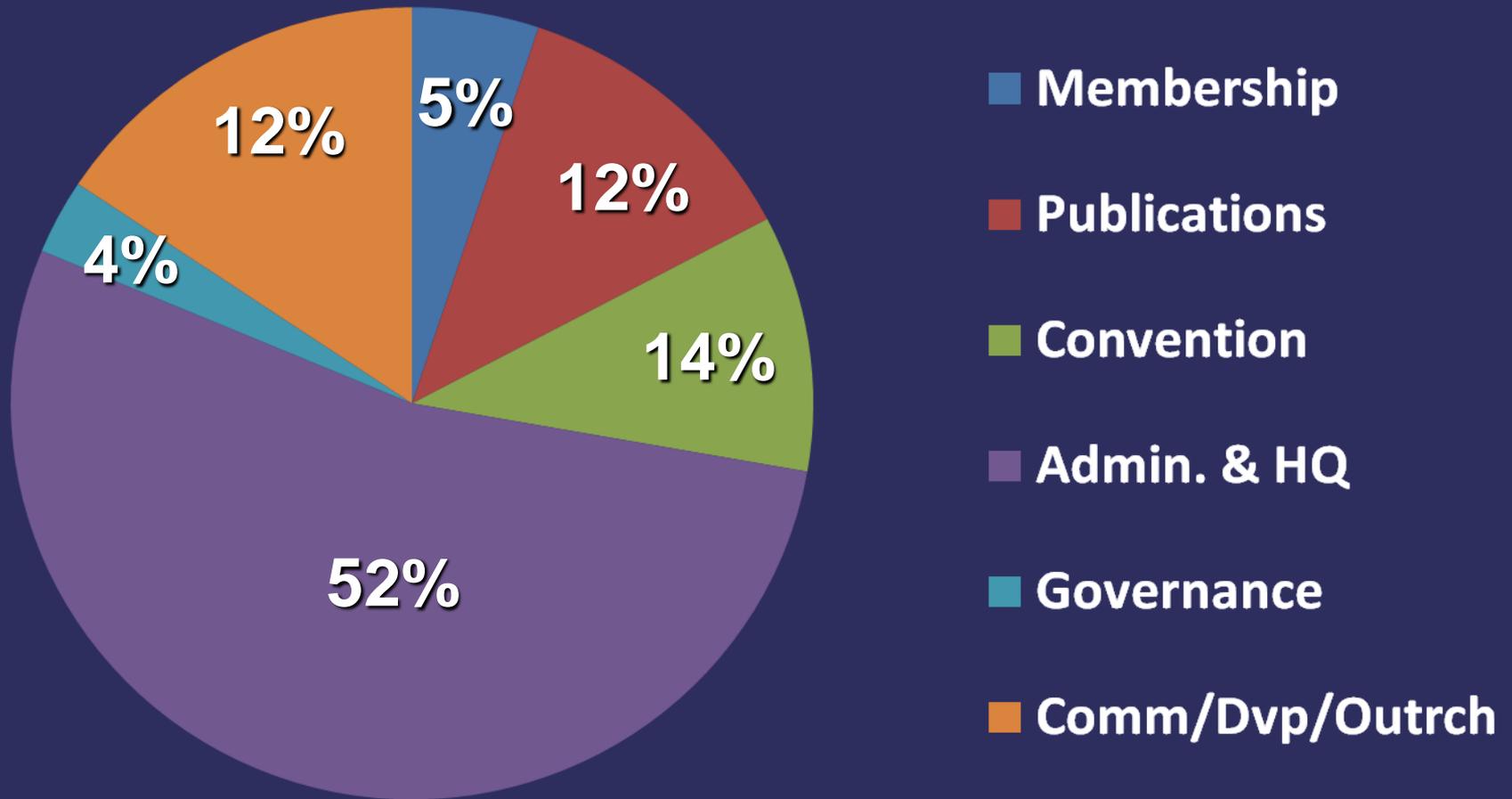
NAEA FY13 REVENUE SOURCES



Based on percentage of overall operating budget.



NAEA FY13 EXPENSE SOURCES



Based on percentage of overall operating budget.



Do you produce financial statements?

- If so, how often? Quarterly? Monthly?
- Who produces the financial statements?
- What tip/tactic works for you?
- Who do you turn to when you have questions?
 - Resources available on the web

Your Budget

What is it?

An estimation of all planned income and expenses for a defined accounting time period.

Why is it important?

To measure financial progress and planning throughout the year.

Budget Development Process

- Look at strategic plan and identify short-term and long-term goals
- Review previous financial statements
- Transform goals into financial terms
- Outline where money will come from and how it will be spent

Tax Reporting

Form 990 is the IRS form nonprofits are required to file annually reporting specific information about the operation of the organization.

The form is to be filed by the 15th day of the fifth month after the end of an organization's accounting period (or fiscal year).

The *IRS FORM 990*

- All 501(c) organizations
 - If gross receipts are less than \$25,000 must file 990-N Electronic Notice for Tax Exempt Organizations Not Required to File Form 990
- Enhanced transparency
- Governance, Management and Disclosure (Section VI)
 - Conflict of Interest Policy
 - Whistleblower Policy
 - Document Destruction and Retention
- Available to the Public

Governing Body and Management

- Number of voting members;
- What relationships exist among officers;
- Does the organization delegate management to a management company;
- Have there been any changes to organizational documents;
- Was there a material division of assets during the tax year;
- Are members of the organization also stockholders;
- How are elections of members of governing body handled and who approves decisions;
- Are all meetings and actions of the governing body documented;
- How are local chapters and affiliates governed;

- Does the governing body review the draft Form 990 before it is filed with the IRS;
- What are the addresses of the officers and directors (may use official company mailing address);
- Is there a Conflict of Interest Policy in place;
- Are there Whistleblower and Document Retention Policies in place;
- What is the process for determining compensation of the Executive Director or other top management officials;
- Did the organization enter into any joint ventures;
- Public availability of forms and other documents; and
- Where do you store books and records.

Financial Policies & Procedures

Best Practices

What does this mean?

“Some people change when they see the light, others change when they feel the heat.”

Best practices, simply put, are seeing the light and implementing successful tactics that are ethical, responsible and makes good business sense.

Audit

- Benefits/importance of an audit
- Are you required to conduct an audit?
- Does your association conduct an annual audit?
 - If so, who performs the audit?

Who doesn't need to perform an audit?

Other Options

- Opt for biennial audits
- Choose less costly financial reviews that simply provide limited assurance on how the financial statements reflect reality (provided by a CPA firm)
- Very small and uncomplicated organizations may rely on compilation, which means hiring an outside accountant to prepare the statements

Segregation of Duties

- General Rule: One person alone should not be in a position to handle a financial transaction from beginning to end.
- The following are examples of inadequate separation of duties:
 - One person opens the mail, endorses and deposits the checks, and reconciles the books
 - The chief executive approves and signs his/her own check requests and checks

Bonding

- What is bonding?
 - An insurance policy that provides financial coverage for losses caused by a dishonest individual. Covers any type of stealing: theft, forgery, larceny and embezzlement or failure of board oversight. This usually occurs when internal controls fail.
- Who should be bonded?
 - All board members, employees and contracted employees. Consideration should be given to anyone else who has financial access or to incur liability on behalf of the association

Determining Bonding Requirements

- The facts, circumstances and potential financial loss is different for each state association. Specific guidance can be provided by your local finance (auditors) and insurance providers.

Internal Control Policies

The following is a list of recommended policies and procedures that an organization needs to help ensure adequate internal controls:

- List of board members/staff authorized to sign checks
- Dollar limits requiring multiple signatures for checks
- How to handle refunds
- Deposit schedule
- Handling of cash
 - Fundraisers
 - Convention onsite registrations

Internal Control Policies (Continued)

- Forms for check requests, expense reimbursements
- Document destruction
- Conflict of interest
- Records retention
- Whistleblower

Thank you!

Any questions please contact:

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Remember, don't get creative with
numbers!