



Chapter Resource Guide: Chapter Financial Management

The purpose of this document is to define a standard Chapter format for the local Chapter consistent with standard accounting practices and provide guidelines so that a Chapter can be responsive to the IRS.

It provides the necessary systems and techniques of Chapter financial control, regardless of the Chapter's size. The Chapter may be maintained on a cash basis rather than an accrual basis. This subtle difference allows the Chapter to operate in a simpler manner.

The Chapter's Board of Directors should formally adopt Chapter policies in implementation of the financial control procedures. These policies should be tailored to meet local Chapter requirements.

TREASURER

Prerequisites

- Basic accounting knowledge -- desirable.
- Must be organized and responsible.
- Must be good with numbers.

Responsibilities

- Reports directly to Chapter President.
- Comply with legal requirements (local, state, federal).
- Manage cash investments (bank and savings).
- Control cash receipts and disbursements.
- Chapter financial control enforcement.
- Manage Chapter budgeting/cash flow and reporting in order to ensure Chapter financial goal achievement.
- Report financial position to Chapter on a monthly or bi-monthly basis.

Accounting Controls

The Chapter board of directors must establish formal policies for receipts and expenditures in implementation of the controls set forth in this section.

Purchase/Service Commitments

Initial control of Chapter funds should be through an approved Chapter budget. All commitments of Chapter funds must be approved before commitment to outside parties. A purchase authorization should be used so that firm commitments of Chapter assets will be known and recorded.

Suggested guidelines for attaining approval are as follows:

- More than \$500: Prior approval by board of directors with signed purchase authorization or \$100 to \$500 (if not budgeted).
- \$100 to \$500: Prior approval (if budgeted) by Chapter officer with signed purchase authorization,
- Under \$100: By committee chairperson or officer if within scope of committee actions and within budget allowance, accompanied by purchase authorization.

- All unpaid purchase commitments/invoices must be recorded and controlled in order to accurately report financial positions. Note: All logs should be kept in either a spreadsheet or a computer accounting application (e.g., Quickbooks).
- This also provides a vehicle to record the commitment against budget for the month committed and expensed, not month paid. Month paid could affect budget performance and cash flow projections.
- A copy of the purchase authorization/income voucher should be maintained in a sequential file to ensure that all transactions are recorded.

Cash Receipts

- Cash receipts should be recorded in a journal (manual or automated) reflecting the date and activity (meeting, seminar, etc.) that generated the income.
- This cash receipts journal provides the source information needed for both audit and budget performance measurement.
- Each consolidated receipt of funds must be accompanied by a signed income voucher describing sources and applicable income account.

Cash Disbursements

- A cash disbursement journal (manual or automated) **must** be established to record payment data and the expense account used. Include the following data: date, payee, check number, amount of check and the expense accounts affected.
- Funds **must not** be expended without a properly executed purchase authorization and accompanied by an invoice indicating receipt of goods or services by the originator.

Checking Account Controls

- It is recommended that Chapter accounts be with an insured financial institution and require two signatures over \$250.00. The inconvenience this may cause can be reduced by having three or four authorized signatures and any two required.

Accounting Control Audit

- It is recommended that the Chapter establish an internal Chapter audit committee to conduct random review audits during the year. These activities should reconcile bank balances, checking activity and ensure that Chapter financial policies are being followed.
- The outgoing Chapter treasurer **must** be required to reconcile the checkbook balance to the latest bank statement. (Treasurer should do this on a monthly basis.)

Income and Expense Account Numbering

Income & Expense Accounts are used to monitor cash receipts and disbursements in relationship to their source and budget.

Chart of Accounts (Income and Expense)

An account number should be assigned to every expense and income account. Account numbers should be kept simple.

Example:

Typical Expense:

- ADM-10 Administration - Printing
- ADM-11 Administration - Postage
- PRO-11 Programs - Postage
- MEM-19 Membership Supplies

Typical Income:

- PRO-02 Dinner Meetings
- MEM-03 Membership - Chapter Dues

The three letters indicate the source of the funds (ADM for Administration) and the two digits (10 for printing) indicate where the expense was charged. Expense accounts should be set up only for expenses that occur frequently or are large dollar amounts. All other expenses should go into a miscellaneous expense account or be put into one of the other categories.

Budget / Cash Flow

A Chapter budget is necessary for every Chapter, regardless of size. The budget is the management tool used by the Chapter Board to control Chapter activities and ensure an adequate financial position. The size of the Chapter should determine the amount of detail required.

Budget/Cash Flow Format

- Each functional area should prepare a budget to be approved, and a consolidated Chapter budget must be prepared and presented and approved at the first meeting of the Board of Directors in each fiscal year.
- The format of the budget for any size Chapter is quite simple. Here are some basic areas of income: Chapter meetings, Chapter membership, seminars, Conferences, Reverse Trade Shows, special events, and miscellaneous.
- The names of expense classifications are determined by each Chapter as they select the categories they need for analysis. Examples include: printing (newsletters and stationery), postage, speaker fees, speaker expenses, conventions, Chapter assessment fee to national, Chapter meeting expenses, audit and legal, miscellaneous.
- A formal budget **must** be prepared and approved by the Chapter board.

Resource for Budgeting

- The best resource is last year's data, both the budget and the actual, period-by-period for each office and activity.

- In the event performance data for prior years are not available, it may be possible to reconstruct the actual information from the canceled checks or check stubs.
- Another excellent resource for budgeting is comparing the budgets of other Chapters of similar size.

Budget Committees

- A budget committee should be established by the president-elect for the purpose of developing the Chapter budget for the new fiscal year.
- The committee members should be the officers and chairs who are responsible for Chapter activities such as membership, publicity, professional development, special events, etc.
- The input from the outgoing officers is invaluable. If the new officers have not been working closely with the outgoing officers, then old officers must be members of this committee.

Cash Flow Projections

Cash flow projecting is determining the cash available by adding cash receipts and subtracting expenditures from the beginning balance, monthly.

<u>Example:</u>	Cash January month-ending	\$15,000
	February Income +	5,000
	February Expense -	<u>(4,000)</u>
	Cash Available for March	\$16,000

Financial Reporting

Financial reports must be prepared monthly. The two main reports are the **Balance Sheet**. These reports are used to show actual financial position.

Statement of Activities, and

Receipts and Expenditures Report

The first step is to create the Receipts and Expenditures Report. The expense and income should be summarized by category.

- Example: Summarize all printing expense for all offices as one number on the Receipts and Expenditures Report. There should be a year-to-date column for the expense/income account as well as a month-to-date column. One of the main reasons for this report is to state accurately the financial activity of the Chapter (surplus or deficit). The amount of surplus/deficit is calculated by subtracting expenses from income. It is also desirable to show percentages of total income and expense next to each income and expense item, to identify the lines of the greatest importance.

Balance Sheet/Chapter Equity

- The balance sheet is used to indicate Chapter assets and liabilities as of month-end. The assets (cash and inventory) are listed and totaled. The liabilities are also listed and totaled, as well as the Chapter equity. The assets **must be** equal to liabilities plus Chapter equity.

Accruals

- For those operating on an accrual basis all expenses should be recorded in the month in which the expenditures are incurred. If an expense is incurred in the current month, but is not paid until the next month, this expense needs to be accrued. The amount accrued may not necessarily be the same as the amount actually spent. To accrue an expense, the expense must be listed on a cash commitment log. The expenses should be recorded on the log when they are paid as well as recorded on the cash disbursement

journal. The total of the log at month-end will be used on the balance sheet to represent accruals. The open commitment log and accounts receivable, as well as outstanding checks, **should be** reviewed and resolved periodically.

Budget Measurement

Chapter Office or Activity Measurement

- Measurement of performance to budget is necessary to provide visibility of how close to plan the office or activity is progressing.
- By maintaining a spreadsheet for each office or special activity with the income/expense categories listed with the approved budget for the fixed year, actual activity to budget can be readily calculated each month for review at the regular Chapter board meeting.

This measurement will provide guidelines for future budgeting. Maintaining this data will provide one of the best sources for incoming officers'

Audit

A periodic review of the Chapter financial control procedures and financial accuracy is a vital activity to ensure Chapter financial stability. This review must be performed by parties external to the treasurer's function on a periodic basis. It is suggested a qualified outside auditing firm be retained. This cost-effective auditing activity can enhance the Chapter's financial perspective.

Audit Committee

- Each Chapter should form an audit committee chaired by a Chapter officer other than the treasurer and responsible directly to the Chapter president. It is the audit committee's responsibility to verify that the Chapter's financial procedures and records are in proper and legal order by performing the following procedures:
- Review Chapter financial records of receipt and disbursement at least every six months to ensure proper records are being maintained and legal reports filed as required.
- Review control procedures to see that they are being maintained.
- Report findings and any recommendations to the president.

External Audit

- Less than \$5000 – every 5 years
- Between \$5000 - \$100,000 - at least every 3 years
- Greater than \$100,000 – at least every 2 years
- Revenue over \$500,000 and 1 employee – annually

Terms and Definitions

ACCRUAL

Method of accounting wherein the revenue and expense are recognized when the obligation occurs rather than when cash is received/issued.

<u>ASSETS</u>	Cash, inventory, and accounts receivable (etc.).
<u>AUDIT</u>	Internal/external review of financial controls/activities.
<u>BALANCE SHEET</u>	A statement of the relationship of assets and liability to equity.
<u>BUDGET</u>	A guideline for financial management (not authorization for expenditures).
<u>DEFICIT</u>	Excess expenses over revenue over a period.
<u>DISBURSEMENT</u>	The outflow of funds to satisfy commitments (actual).
<u>EQUITY</u>	Net Chapter worth (assets minus liabilities).
<u>FINANCIAL STATEMENT</u>	The Chapter's statement of financial position.
<u>LIABILITIES</u>	Accounts payable, loans payable, deferred revenue, etc.
<u>P.A.</u>	Purchase Authorization.
<u>UNRELATED INCOME</u>	The income derived from any activity not substantially related to the Chapter educational activities.