

The Association's Finances: A Guide for the Board of Directors

*Helping You to Understand the
Fundamentals*



The Board's Responsibility

One of the primary responsibilities of the Board of Directors is to ensure the organization's financial health. The Board fulfills a key role in the area of budget and expenditure oversight for the association and should be kept up-to-date on all significant financial issues.

Your Primary Responsibilities

Ensure fiscal accountability

Finalize and approve the budget

Approve expenditures outside the authorized budget

The Executive Director and other Association staff maintain day-to-day authority over the Association's budget and are responsible for ensuring that the funds expended by the Association are in line with the approved budget. **The Executive Director has the authority to exceed an expense line item by 10% before additional authorization of the Board is required.** (*SECA Policies and Procedures/Financial Policies*).



Developing the Annual Budget

Budgeting allows an organization to state its organizational plan in financial terms, while also allowing management and Board members to monitor the use of resources.

What factors should be considered when developing an annual budget?

1. What is the non-profit's mission? If a current strategic plan is in place, the goals within that plan should be considered as the budget is developed.
2. Is the organization's level of administrative expenses reasonable, given its location, the number of people it is serving and the manner in which the services are being provided?
3. What sources of revenue are available to the organization?

How does the budget process work at SECA?

- **The initial preparation of the proposed budget occurs in the SECA office, under the guidance of the Executive Director.** The best predictor of revenue and expenses is the experience of the previous year, and that specific information is housed in the SECA office. This process usually begins in the October/November timeframe each year.
- **The proposed budget is developed and forwarded to the Financial Officer of the organization for review. The Financial Officer reviews the proposed budget and discusses the information with the Executive Director.** At this point, any needed clarification on the proposed budget items can be addressed.
- **When this review is completed, the Financial Officer authorizes the release of the proposed budget to the SECA Finance Commission.**
- **The Financial Officer convenes the Finance Commission and the budget is considered.** At this point, the Finance Commission may choose to modify the proposed budget or accept it as proposed.
- **The Finance Commission submits the proposed budget to the SECA Board of Directors.** The proposed budget may be accepted as proposed or additional modifications may be made.
- **The budget is adopted.** This usually occurs at least one month prior to the beginning of the fiscal year. (January begins the SECA fiscal year.)
- **The Executive Director updates the accounting system to reflect the new fiscal year budget.**



How Does the SECA Financial System Work?

The SECA financial system is made up of a **Chart of Accounts**.

“The Chart of Accounts rests at the heart of a financial accounting and reporting system..... A chart of accounts is a system for identifying and classifying accounts and transactions by the type of account or the nature of the transaction (what occurred) and by the activity or function (the purpose for which the transaction occurred).....A not-for-profit organization’s accounting system should enable it to record financial information systematically and consistently, with adequate supporting documents.” *Source: Unified Financial Reporting System for Not-for-Profit Organizations, (2000), Jossey Bass.*

SECA has adopted (2009) the **Unified Chart of Accounts for Not-for-Profit Organizations** and all reporting will begin under that system in June 2009.

In addition to the “titles” of each item, there is a coding number that allows us to ensure that all items that are related are posted under the same coding. For example,

Chart of Accounts/Item	Code
Affiliate Dues	5310-100
Non-affiliate Dues	5310-101
Board Travel	8310-500
Travel to State Conferences/NAEYC	8310-501
Staff Travel	8310-502

This system groups all dues under the 5310 code but separates them into affiliate and non-affiliate dues with the 3 digit code at the end. The same principle applies to the travel category.

Appendix A: SECA Chart of Accounts

Internal Controls

You’ll see this term come up in audits and financial reviews, and all it means is that there are adequate “safeguards” within an organization to ensure that finances are being handled properly. Auditors want to see that more than one person is handling the money and there are oversight functions in place to protect against fraud and abuse. With small organizations, this is



probably one of the greatest challenges in the process because SECA does not have adequate staff to ensure the optimal “internal control”.

In order to address this issue as practically as possible, several things have occurred:

- I. All checks received in the office are handled by at least two persons.
- II. Deposits are prepared with photocopies of all checks deposited attached to the deposit slip.
- III. The bookkeeper comes to the SECA office twice a month and she reviews and cross-checks all deposits (including credit cards and on-line purchases) and expenditures. She also reconciles the bank statement each month and prepares the monthly financials that are distributed to the Board. **(SECA utilizes Quick Books accounting software.)**
- IV. The Executive Director prepares a list of all checks (**approval list**) that will be issued every two weeks. These checks are prepared by the bookkeeper and verified for accuracy against the bills.
- V. A copy of the approval list is forwarded to the Executive Committee on the 1st and 15th of each month, and the Financial Officer signs the form and returns it to the SECA office. These are kept on file in the office as proof of the outside review.

Appendix B: Sample Approval List

The Monthly Financials: What Are They and What Can They Tell Me?

Each month you’ll receive three documents from SECA through e-mail. These documents are saved as PDF’s and you will need **Adobe Acrobat** on your computer in order to read these documents. The three documents will include:

- I. The Statement of Financial Position (Balance Sheet)
- II. Income Statement (Profit and Loss)
- III. A report of current revenue and expenses as compared to the annual budget



The Statement of Financial Position (Balance Sheet)

The Statement of Financial Position, more commonly known as the Balance Sheet, is your window into the financial health of the organization. It's the first and most important document that you should know how to review and understand. It includes:

- **Assets:** Everything that the organization **OWNS**
- **Liabilities:** Everything that the organization **OWES**

Assets include:

- Cash on Hand
- Our investment accounts (including restricted and non-restricted)
- Accounts receivable (what people owe us)
- Inventory
- Pre-paid expenses
- Fixed assets (equipment, furniture)

Liabilities include:

- Accounts payable (what we owe others)
- Deferred revenue (SECA uses accrual accounting.)
- Payroll liabilities
- Equity (our investment accounts)

A non-profit balance sheet is designed to conform to the following equation:

$$\text{ASSETS} = \text{LIABILITIES} + \text{NET ASSETS}$$

That's why you'll see our investment accounts listed on both the assets and liabilities side of the report.

So what does that tell you? For example, we need to **move money from an investment account to our checking account** because cash flow is low. You'll see that transaction appear on the balance sheet as a **deduction** in the balance of the investment account and an **addition**



to the cash on hand account. ***You won't, however, see it show up on the monthly profit and loss statement. It's not considered income to the Association, merely a transfer of existing assets.***

In 2008, we moved money from the Division for Development account into the SECA checking account to cover the costs of our website renovation. That was approved by the Board of Directors and implemented by the Executive Director. In the month that the transfer occurred, you would have found a decrease in the Division for Development account and a corresponding increase in the cash on hand account on the Balance Sheet.

Appendix C: Sample Balance Sheet

The Income Statement (Profit and Loss)

The income statement (profit and loss) is a summary of all revenue and expenses of the organization. The SECA income statement provides information on the **revenue vs. expenses** (profit or loss) of the month and the year-to-date profit and loss (all months since January of that year). This statement tells you:

- I. How much revenue was posted in that month
- II. What expenses were incurred and bills paid
- III. Whether the income that month was sufficient to pay the bills. If it was not sufficient it will show you how much of a deficit we accrued.
- IV. Whether we are showing a profit or loss for the year (net income)

This statement will be broken down according to the chart of accounts, so that you can determine exactly where the SECA funds are being spent.

Our cash flow during the **1st** (January, February, March) and **4th quarters** (October, November, December) is good due to large revenue intake from conference and membership dues. During the **2nd** (April, May, June) and **3rd** (July, August and September) **quarters** cash flow becomes very tight due to reduced membership revenue. We are very dependent upon the timely remittance of dues from NAEYC during that period, and these are typically the months when you will begin to see a negative figure for net income.

Appendix D: Sample Income Statement



The Budget Report

In order to assist you in gauging the financial status of the organization, a report that compares the current status of income and expenses to the annual budget is provided. There are some things to remember about the budget:

- I. Most of our **conference revenue is received and conference expenses are incurred during the first three months of the year**. You'll see significant increases in those line items on your financial reports during the first three months of the year and then practically no change until around September or October. We begin taking in revenue for next year's conference in the last three months of the year. For example, **for the conference in 2009**, we took in registration revenue for that conference in the months of October, November and December of 2008. You can't look at the financials of a fiscal year (January-December) and determine how well we did on conference. It is necessary to go back into the last months of the previous year to figure that out.
- II. Revenue for **subscriptions to *Dimensions of Early Childhood*** comes primarily in November or December, so you won't see much action in that line item until the end of the year.
- III. **Sales of publications** peak in August/September and around the first of the year. This is due primarily to college bookstores.
- IV. Our **biggest expense item is the production and distribution of *Dimensions of Early Childhood***. That's an expense of approximately \$20,000 per issue that comes around February, July and November.

Appendix E: Sample Budget Report



Welcome to the Board of Directors!

As you assume your Board role and responsibility for oversight of the financial health of the Association, there are some questions that you should ask:

1. Are we showing a profit or loss?
2. Are our key sources of income rising or falling?
3. Are our key expenses under control?
4. Do we have sufficient reserves?
5. Is our cash flow projected to be adequate?
6. Are we regularly comparing our financial activity with what we have budgeted?
7. Is our financial plan consistent with our strategic plan?
8. Is our staff satisfied and productive? Are financial issues causing problems with the efficient operations of the office?
9. Are we filing on a timely basis all the required reporting documents and fulfilling our legal obligations?
10. Does our financial reporting provide a true picture of the health of the Association?

Source: SECA Board Training Module 8: Nonprofit Association Finances & Fundraising, 2007

Remember: A Board of Directors is the group of people legally charged with the responsibility to govern a corporation. Every Board has a fundamental responsibility to create structure, policies and procedures that support good governance. Your job is to be an informed and active Board member, one who assists the Board in carrying out its responsibilities. One of those major responsibilities will be to help the Association maximize its financial resources to the benefit of its members and the children and families of the South.



Southern Early Childhood Association



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