Couch to $K: Get a Running Start on Basic Fiscal Fitness

Paula K. Purdy, NEA Manager of Affiliate Support
COMPETENCY: BUSINESS

• **Competency progression levels:**
  – Level 1: Foundational and Level 2: Mobilizing & Power Building

• **Themes to be covered in this presentation:**
  – Understand the basic duties each officer is expected to uphold
  – Understand basic financial concepts and financial statements
  – Understand basic financial statement analysis
  – Learn the basics of strategic budgeting
  – Learn the importance of cash reserves
What We Will Cover

1. The Board Member’s role as fiduciary to the association
2. Internal control procedures
3. Understanding financial statements
4. Financial statement analysis
5. Strategic budgeting
6. Net assets and cash reserves
For Consideration

• What do you already know about fiduciary duties?
What is a Fiduciary?

• A fiduciary is a person or institution given the power to act on behalf of another in situations that require great trust, honesty and loyalty

• A fiduciary must set aside his or her own personal motives and act in the best interest of the organization

• A fiduciary cannot act in any manner adverse or contrary to the interests of the association
What are my General Responsibilities as a Fiduciary?

• Act in the best interest of the association

• Use good faith and honesty when making decisions

• Exercise all of the skill, care and diligence that a prudent person would exercise when acting on behalf of the association

• The Board should strive to make the best or right decisions in all situations
What Duties are Part of Being a Fiduciary?

• Care

• Loyalty

• Good Faith

• Obedience
What is the Duty of Care?

• Requires you to exercise ordinary and reasonable care in the performance of your duties, while exhibiting honesty and good faith

• Dictates that you must act in a manner which you believe to be in the best interests of the association

• Act as an ordinarily prudent person in a like position would use under similar circumstances
Who is the Prudent Person?

Acting as a prudent person requires:

• Attendance
• Inquiry
• Skill
• Caution
• Use of best judgment
• Reliance on experts (as necessary)
When Should You Rely on Experts?

• Unless a board member has knowledge that makes reliance unwarranted, you should reach out to experts when navigating legal, financial, or other matters that require knowledge outside of your basic competencies.
When Should You Look for Help?

Examples of situations where you should seek expert guidance include:

• Suspected criminal activities
• Financial irregularities
• Money management
• Infrastructure and Building Projects
• Staff Issues
• Issues with governmental agencies (such as the IRS, DOL, EEOC, etc.)
What is the Duty of Loyalty?

- Faithfulness to the Association
- You must give your undivided allegiance to the association when making decisions.
  - Cannot put personal interests above the interests of the association
  - Should disclose potential conflicts
What is the Duty of Good Faith?

• Always undertake your responsibilities honestly, conscientiously, and fairly
• Make decisions for the association that are in the best interests of all the association’s members and not for the advantage or benefit of one group over another
• Ensure that personality conflicts - or even the avoidance of such conflicts - does not get in the way of governing the association in a conscientious manner
  – This does not mean that you should not voice dissent
What is the Duty of Obedience?

• Requires officers and directors to act in accordance with the association’s articles of incorporation, bylaws and other governing documents, as well as all applicable laws and regulations.
Willful Ignorance and Intentional Wrong Doing

- Cannot turn a blind eye to issues occurring within the association and then claim no knowledge
- Fiduciaries acting outside of or abusing their authority as officers and directors may be subject to personal liability arising from those actions
- Fiduciaries who, in the course of the association's work, intentionally cause injury or damage to persons or property may be personally liable, even though the activity was carried out on behalf of the association
Every Board Member Needs to Know and Understand Internal Control Procedures

Paula Purdy ~ NEA Manager of Affiliate Support

2016 NEA National Leadership Summit | February 26-28, 2016 | Hilton Anatole | Dallas, Texas
Board Members Need to Know Internal Control Procedures

“You don’t trust me?!”

Processes by which the association protects its assets from theft and financial reporting from intentional or unintentional mistakes

• AKA “Checks and balances”
  – Top-level reviews
  – Segregation of duties
  – Physical controls
  – Information processing controls
Why Internal Controls are Important for the Association

• Protection for the Association, members, leaders, and employees
• Reduces the risk of loss due to fraud or mismanagement
  – A required component of the audit process
  – Insurance premiums are based on risk of loss
Examples of Internal Controls for Associations

- Reconcile membership counts and dues on a timely basis
- Require dual signatures on all checks
- Do not sign blank checks to be completed later
- Do not write checks to “Cash”
- Do not use debit cards
If Fraud or Malfeasance Is Suspected

- Take it seriously and do not ignore tell-tale signs
- Investigate and take the necessary steps to protect the Association’s assets and reputation
Heads Up!!!!!

Public Accountants are **NOT** an internal control!!!
Every Board Member Needs to Know and Understand Financial Statements

Paula Purdy ~ NEA Manager of Affiliate Support
For Consideration

• What are your expectations for the board to receive financial information?
How Board Members Fulfill Their Financial Role

• You are not expected to be accountants --- that is what your accounting staff is for

• Understand the financial picture of the Association – including related parties

• However, the weeds...stay out of them!
  – The board’s role is oversight not management
How Board Members Fulfill Their Financial Role - continued

• It is essential that you are a financial inquisitor so ask questions----ask lots of them!

• Establish and monitor key financial indicators
  – Agree on general guidelines and standards to measure effectiveness
  – Use proper tools to monitor financial performance and policies to guide decision-making
Each Board Member’s Responsibilities

- Attend the board meetings
- Read all materials in advance of board meetings
- Learn to read and understand the financial statements and reports
- Participate in discussions
There Are No Excuses....

• How could anyone expect me to know?

• I am just a volunteer – I trusted the experts!

• Why didn’t someone tell me?
Financial Reporting to the Board

• The Board’s governing role of the Association includes review of interim and year-end financial statements in order to:
  – Manage resources
  – Question and evaluate results
  – Look at the big picture

• In order to fulfill this role, the Board must receive accurate and timely financial information
Financial Reporting to the Board

From these financial statements, the Board should be able to:

• **Determine if cash flow is adequate** to meet the immediate and future needs of the Association

• **Make informed decisions about the direction of the Association** and any immediate actions that need to be taken to continue operations and segments of operations

• **Analyze the actual position of the Association** compared to the budgeted numbers
Financial Reporting to the Board - continued

From these financial statements, the Board should be able to:

• **Make recommendations and take actions**, if necessary, based on these reports

• **Determine that financial records are being maintained on a timely basis**
The Financial Statements Must Be Transparent

The widespread availability of relevant, reliable information about the performance, financial position and governance of an organization.

- Complete information
- Accurate information
- No surprises
- Principle of Materiality – Would the omission or misstatement of accounting information influence the judgment of a reasonable person?
  - Not limited to just dollar impact – information as well
The Difference Between Cash Basis and Accrual Basis Accounting

Financial statements are presented in either an accrual basis of accounting or a cash basis of accounting

- **Accrual Basis Accounting** – Revenue is recorded when it is earned and expense is recorded when the obligation is incurred (Generally Accepted Accounting Principles - GAAP)

- **Cash Basis** – Revenue is recorded when payment is received and expense is recorded when payment is made (Department of Labor Reporting)
Board Members Need to Understand the Balance Sheet

- The Statement of Financial Position (AKA The Balance Sheet) = Where we are now
  - Measures the Association’s assets and liabilities for a point in time
  - Reflects the cumulative effect of operations over the lifetime of the Association (Net Assets)

See Page 1 Balance Sheet August 31, 2015
### STATE EDUCATION ASSOCIATION

**STATEMENTS OF FINANCIAL POSITION (Balance Sheet)**

**AS OF AUGUST 31, 2015 AND 2014**

#### ASSETS

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CURRENT ASSETS:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$5,425,175</td>
<td>$4,615,781</td>
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<tr>
<td>Short-Term Investments</td>
<td>$6,657,829</td>
<td>$9,890,285</td>
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<tr>
<td>Dues receivable</td>
<td>$408,604</td>
<td>$381,597</td>
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<tr>
<td>Prepaid expenses</td>
<td>$148,419</td>
<td>$196,908</td>
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<tr>
<td><strong>Total current assets</strong></td>
<td><strong>$12,640,027</strong></td>
<td><strong>$15,084,571</strong></td>
</tr>
<tr>
<td><strong>PROPERTY AND EQUIPMENT:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land and improvements</td>
<td>$336,582</td>
<td>$336,582</td>
</tr>
<tr>
<td>Buildings and improvements</td>
<td>$5,134,496</td>
<td>$5,134,496</td>
</tr>
<tr>
<td>Furniture, fixtures, and equipment</td>
<td>$2,063,367</td>
<td>$2,144,916</td>
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<tr>
<td>Automobiles</td>
<td>$144,976</td>
<td>$140,988</td>
</tr>
<tr>
<td><strong>Less:</strong> Accumulated depreciation</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total property and equipment:</strong></td>
<td><strong>$7,679,421</strong></td>
<td><strong>$7,766,982</strong></td>
</tr>
<tr>
<td><strong>Long-Term Investments</strong></td>
<td><strong>$1,530,047</strong></td>
<td><strong>$4,097,250</strong></td>
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<tr>
<td><strong>Total long-term assets</strong></td>
<td><strong>$3,325,173</strong></td>
<td><strong>$6,129,321</strong></td>
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<tr>
<td><strong>Total assets</strong></td>
<td><strong>$15,965,200</strong></td>
<td><strong>$21,213,892</strong></td>
</tr>
</tbody>
</table>

#### LIABILITIES AND NET ASSETS

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CURRENT LIABILITIES:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>$610,980</td>
<td>$718,713</td>
</tr>
<tr>
<td>Deferred Income</td>
<td>$494,037</td>
<td>$547,134</td>
</tr>
<tr>
<td>Accrued payroll</td>
<td>$264,382</td>
<td>$227,050</td>
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<tr>
<td>Deferred Compensation</td>
<td>$110,137</td>
<td>$83,440</td>
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<tr>
<td>Current portion of mortgage payable</td>
<td>$118,736</td>
<td>$103,914</td>
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<tr>
<td><strong>Total current liabilities</strong></td>
<td><strong>$1,598,272</strong></td>
<td><strong>$1,680,251</strong></td>
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<tr>
<td><strong>LONG-TERM LIABILITIES:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term portion of mortgage payable</td>
<td>$263,440</td>
<td>$382,365</td>
</tr>
<tr>
<td>Accrued postretirement benefits cost</td>
<td>$1,268,397</td>
<td>$1,149,760</td>
</tr>
<tr>
<td>Accrued annual leave</td>
<td>$808,137</td>
<td>$756,440</td>
</tr>
<tr>
<td><strong>Total long-term liabilities</strong></td>
<td><strong>$2,339,983</strong></td>
<td><strong>$2,288,565</strong></td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net Assets</strong> <strong>SEE PAGE 2 NET ASSETS AT END OF YEAR</strong></td>
<td>$12,026,945</td>
<td>$17,245,076</td>
</tr>
<tr>
<td><strong>Total liabilities and net assets</strong></td>
<td><strong>$15,965,200</strong></td>
<td><strong>$21,213,892</strong></td>
</tr>
</tbody>
</table>
Assets = Liabilities + Net Assets

Total assets (Page 1A) ALWAYS EQUAL Total liabilities + Net assets (Page 1A)
Current Assets and Liabilities

- **Current assets** are assets that will be converted into cash, depleted or sold within a business cycle – typically 12 months – highly liquid *(Page 1B)*

- **Current liabilities** are those obligations due within a business cycle – typically 12 months *(Page 1C)*
Long-term Assets and Liabilities

- **Long-term assets** are assets that cannot be converted readily into cash *(Page 1D)*

- **Long-term liabilities** are liabilities that mature longer than one business cycle *(Page 1E)*
Cash and Cash Equivalents

• Always shown as the first item on a balance sheet because it is the most liquid (Page 1F)

  – Cash on hand (petty cash and funds)
  – Funds on deposit
  – Investments with original maturities 3 months or less
Short-Term Investments

(Page 1G)

- Investments with original maturity dates greater than 3 months but maturing within 12 months
  - Still considered a highly liquid asset and therefore a current asset
Dues and Accounts Receivable

(Page 1H)

– Money owed to the Association for services rendered or sale of goods
Prepaid Expenses

(Page 11)

• Cash that has already been paid for future goods or services that have not been received or rendered yet

  – Magazine subscriptions
  – Health insurance
  – Software support
Property and Equipment

(Page 1J)

– AKA fixed assets
– "Historic value" vs. "Market value"
– Definition of a fixed asset:
  » Defined criteria by Association
  » No industry standard
  » Policy usually based on dollar threshold & expected life of asset
Long-Term Investments

(Page 1K)

- Investments with maturity dates greater than 12 months
Accounts Payable

(Page 1L)

- Amounts owed to vendors for which invoices have been presented for payment
  - Exact dollar amount owed known
Deferred Income

(Page 1M)

• Advance payments received for which the Association has not yet provided a service. Once the service has been performed it is recognized as revenue on the Statement of Activities (Income Statement) as revenue.
  – Member dues paid for the entire year
Accrued Liabilities

(Page 1N)

- Obligations for goods and services provided for which invoices have not yet been received
  - Expense incurred best estimate of the dollar amount of the expense
- Employee benefits that are being earned now and will be paid at a future date
  - Quite often an estimate
  - Required by Financial Accounting Standards Board for accrual basis accounting
Deferred Compensation

(Page 10)

- Compensation earned by a staff member that is paid at a later date
Current and Long-term Debt

(Page 1P)

• Current portion long-term debt is that portion of the debt payable within the current business cycle

• Long-term debt is debt that is payable longer than one business cycle
Pension and Other Postretirement Benefits Liability

(Page 1Q)

• Retirement, healthcare and life insurance obligations payable upon retirement to qualified individuals of the Association
Net Assets

(Page 1R and 2 8/8)

• Net Assets are the sum total of what the Association is worth

• Net Assets are **NOT** the amount available to spend on unbudgeted items
Board Members Need to Understand the Statement of Activities

• Statement of Activities (AKA the Income Statement) = **How we are doing**
  • Shows the results of operations over a specific period of time
  • Typically a 12 month period but it does not have to be a calendar year in which case it is called a fiscal year

*See Page 2 Income Statement August 31, 2015*
STATE EDUCATION ASSOCIATION

STATEMENTS OF ACTIVITIES (Income Statement)
FOR THE YEARS ENDED AUGUST 31, 2015 AND 2014

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUES:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Membership dues</td>
<td>$12,695,649</td>
<td>$14,104,821</td>
</tr>
<tr>
<td>Journal advertising and subscriptions</td>
<td>218,905</td>
<td>230,180</td>
</tr>
<tr>
<td>Grants from national organization</td>
<td>3,775,639</td>
<td>4,632,580</td>
</tr>
<tr>
<td>Member benefits from national organization</td>
<td>143,171</td>
<td>122,144</td>
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<tr>
<td>Investment return</td>
<td>2,765</td>
<td>877,988</td>
</tr>
<tr>
<td>Rent</td>
<td>5,500</td>
<td>5,500</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>20,490</td>
<td>31,274</td>
</tr>
<tr>
<td><strong>Total revenues (Income)</strong></td>
<td><strong>16,862,119</strong></td>
<td><strong>20,004,487</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>EXPENSES:</strong></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Program:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Governmental relations</td>
<td>2,380,103</td>
<td>2,374,914</td>
</tr>
<tr>
<td>Professional rights and responsibilities</td>
<td>4,208,539</td>
<td>4,525,680</td>
</tr>
<tr>
<td>Public relations</td>
<td>3,617,025</td>
<td>1,895,793</td>
</tr>
<tr>
<td>Other member services</td>
<td>6,095,721</td>
<td>6,053,275</td>
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<tr>
<td><strong>Support:</strong></td>
<td></td>
<td></td>
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<tr>
<td>Management and general</td>
<td>3,790,571</td>
<td>4,012,579</td>
</tr>
<tr>
<td>Membership development</td>
<td>1,988,291</td>
<td>2,073,302</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>22,080,250</td>
<td>20,935,543</td>
</tr>
</tbody>
</table>

| **Change in net assets** | (5,218,131) | (931,056) |

**NET ASSETS AT BEGINNING OF YEAR** | 17,245,076 | 18,176,132 |

**NET ASSETS AT END OF YEAR***SEE PAGE 1R** | $12,026,945 | $17,245,076 |

PAGE 2
The Statement of Activities

• Total income *(Page 2A)*
• Total Expenses *(Page 2B)*
  – Programmatic
  – Support
• Change in net assets *(See Page 2C)*
  – “Non-profit speak” for net income or net loss
  – Might also see “Net Surplus” or “Net Deficit”
Change in Net Assets

(See Page 2C, 2D and 1R)

• Change in Net Assets is also known as the Net Income or Deficit of the Association 2C

• Notice how the Net Assets at End of Year for the Association shown on the Statement of Activities 2D agrees with the Net Assets on the Statement of Financial Position 1R

• Therefore, Net Assets are the cumulative Net Income (or Loss) of the Association from its inception to year-to-date!
  – At August 31, 2015, total net assets are $12,026,945
For Consideration

What is the significance of positive or negative Net Assets on the Statement of Financial Position?
“Take-Aways” for Board Members

• It is the Board of Directors responsibility to understand the **TOTAL** financial picture of the Association without going into the “weeds”

• It is acceptable for the Board of Directors to ask for additional information in order to completely understand the financial picture of the Association
One Final Point.....

Always remember **each individual Board Member** has a responsibility to ensure that their Association is financially healthy!
Every Board Member Needs to Know and Understand Financial Statement Analysis

Paula Purdy ~ NEA Manager of Affiliate Support
Financial Statement Analysis in 8 Incredibly Easy Steps!

Paula Purdy ~ NEA Manager of Affiliate Support
What We Will Cover

• How to be successful at financial statement analysis
• Financial statement analysis in 8 incredibly easy steps!
• The financial statement review – putting the financial statement analysis into action
How to do a Successful Financial Statement Review

1. Read the financial statements
2. Come up with a list of questions to ask at the board meeting
3. Ask the questions at the board meeting
4. Ask follow up questions when you do not understand the answer
5. Ask for additional information to be provided if necessary and be sure to follow up on any open issues
Just a Friendly Reminder

• You are not expected to be accountants --- that is what the accounting staff is for

• It is essential that you are inquisitive

• Follow up is an important part of the process
You Simply Cannot Do Financial Statement Analysis
Wrong
Everybody Can Do This!
The Financial Statements Need to be Timely and Relevant

If you are not receiving the financial statements in a timely manner then the information contained within them is no longer relevant.

You simply cannot make wise association decisions if the financial information is no longer current.
Financial Statement Analysis in 8 Incredibly Easy Steps!

STEP 1: Determine whose financial statements you are reading and for what period the financial statements are reporting. Quickly flip through the financial statements to see what information is provided.
Financial Statement Analysis in 8 Incredibly Easy Steps!

STEP 2: For the Statement of Financial Position, quickly read the account titles to familiarize you with the types of assets, liabilities, and net assets that are being reported on.

- Do I recognize all of the asset, liabilities, and net asset accounts?
- Are there any new accounts that I have not seen before?

ACTION ITEM: Highlight what you do not recognize
Every Board Members’ Responsibility

Cash is the most vulnerable asset of the Association. PROTECT THE CASH!
STEP 3: Starting at the top with “Cash and Cash Equivalents,” compare the balance for current fiscal year to the prior fiscal year. Continue moving down the balance sheet doing the same comparison for each line item.

- Is this a large balance?
- Is there a significant change from the prior period? This can be a positive or negative change.

ACTION ITEM: Highlight the line if there is a significant change.
Financial Statement Analysis in 8 Incredibly Easy Steps!

STEP 4: After reviewing the Statement of Financial Position, go back and revisit the line items that were highlighted in yellow.

– Why did I highlight this line item?
– What was interesting or unusual about the line item?
– Do I have information from another source that causes me to question this line item?

ACTION ITEM: With the red pen, write any questions you might have about that line item on the balance sheet.
Financial Statement Analysis in 8 Incredibly Easy Steps!

**STEP 5:** For the Statement of Activities, quickly read the account titles to familiarize you with the types of income and expense accounts that are being reported on. Also, determine the number of months remaining in the fiscal year.

- Do I recognize all of these income and expense accounts?
- Are there any new accounts that I have not seen before?

**ACTION ITEM:** Highlight what you do not recognize.
Helpful Hint

Knowing how many months remain in the fiscal year will become very important as the year progresses. You will be comparing actual results to the annual budget and knowing how much time remains will help you determine how well operations are going for the year, and whether or not any action needs to be taken.
Financial Statement Analysis in 8 Incredibly Easy Steps!

STEP 6: Starting at the top with “Membership dues” income, compare the balance for each –

- Income line item
- Total income
- Expenses by program and support
- Total expenses
- Change in Net Assets (Income or Loss)

for the current fiscal year to the prior fiscal year and to the current fiscal year budget
Financial Statement Analysis in 8 Incredibly Easy Steps!

STEP 6 continued:

– Is there a significant variance between the two fiscal years or between the actuals and budget?
– Is it a favorable or unfavorable variance?
– This can be a positive or negative change.

ACTION ITEM: Highlight the line item if there is a significant variance between the fiscal years and/or the budget.
Just a Friendly Reminder

Change in Net Assets is also known as net income or loss which is shown cumulatively on the Association’s Statement of Financial Position (Balance Sheet)
Financial Statement Analysis in 8 Incredibly Easy Steps!

STEP 7: After reviewing the Statement of Activities, go back and revisit the line items that were highlighted in yellow.

– Why did I highlight this line item?
– What was interesting or unusual about the line item?
– Do I have information from another source that causes me to question this line item?

ACTION ITEM: With the red pen, write any questions you might have about that line item on the Statement of Activities.
Financial Statement Analysis in 8 Incredibly Easy Steps!

- **STEP 8:** For any supplemental information provided, read through highlighting any significant, interesting or unusual items that you notice.
  - Why did I highlight this line item?
  - What was interesting or unusual about the line item?
  - Do I have information from another source that causes me to question this line item?

**ACTION ITEM:** With the red pen, write any questions you might have directly on the document. Use the post-it notes to write any questions that refer to multiple pages.
Knowledge Into Action

For the Next 8 Minutes Practice Analyzing the Association’s Financial Statements Using the 8 Step Methodology
Financial Statement Review

Now that you have the questions, it is time to practice asking them.

Be sure to write the answers to your questions in blue directly on the financial statements.
For Consideration

• Given the financial information that is currently provided to you on a periodic basis, is this adequate in order to determine the fiscal health of the association?

• What other information would be beneficial in order to be a fiscally informed board member?
Useful Tip

Be sure and retain your “marked up” copy of the financial statements each month. You will refer back to these financial statements frequently. By having your comments already on the financial statements, it will also help you remember the information that was provided during the financial statement review.
Every Board Member Needs to Know and Understand Strategic Budgeting

Paula Purdy ~ NEA Manager of Affiliate Support
For Consideration

• What is the role of the board in the budgeting process?

• What is the relationship between management and the board regarding the budget?
A Strategic Budget Starts with a Strategic Plan

- The strategic plan is designed with the organization in mind and begins with its mission

THE MISSION STATEMENT

The mission of the State Education Association is to unite our members and local communities across the State in fulfilling the promise of a high quality public education which successfully prepares every single student to fully realize his or her full potential. We believe this can be accomplished by advocating for students, education professionals, and support professionals.
A Strategic Budget Starts with a Strategic Plan - continued

• The strategic plan looks ahead to where the organization wants to be in three, five, and even ten years

• The strategic plan considers the organizations strengths, weaknesses, opportunities, and threats during the SWOT Analysis

• The strategic plan serves as the framework for lower level planning
Strategic Planning Answers These Questions

- Which organizing efforts, programs and services provide the most value for members and are they in alignment with the mission of the association?

- What are the greatest needs of the members? What can you do to ensure the resources to meet those needs?
Strategic Planning Answers These Questions - continued

• What are the association’s recent accomplishments? How have they helped to move the association towards a strategic direction?

• What changes or trends will have the most profound effect on the association within the next year? 5 years? 10 years?
Board Members Need to Understand the Strategic Budgeting Process

• Once the association determines the programs and services to provide its members as well as the mission for the future of the association the next step is to create the budget

• Creating a strategic budget is the planned allocation of association resources in order to accomplish the mission set forth in the strategic plan
Issues to Consider When Creating a Strategic Budget

• Is membership declining?

• Is there adequate cash flow to sustain operations?

• If there are investments, how will the association manage risk?

• What is the age of the property, plant and equipment?
Issues to Consider When Creating a Strategic Budget - continued

- Does the association have debt? If yes, when does it mature?
- Are expenses in excess of revenues?
- Are net assets growing or eroding?
Issues to Consider When Creating a Strategic Budget - continued

• How could a change in the political climate affect members and consequently the association’s operations?

• What revenue sources of the association are at greatest risk?

• Can the association replace threatened or lost revenue sources or develop new sources of revenue?
Issues to Consider When Creating a Strategic Budget - continued

- What are the costs of the association’s most important ongoing programs?

- What are the association’s fixed operating expenses?

- How much flexibility does the association have to adjust spending in times of financial crisis? Could expenses be cut and how quickly?
Guiding Principles for Creating a Strategic Budget

- Maintain a fiscally sustainable and balanced budget
- Use Association resources strategically
- Earmark resources for top priorities and initiatives
- Determine whether the benefit of a program is worth the cost
- Maintain reserves for economic uncertainties and unplanned expenditures
For Consideration

- What should the process be for formally approving a strategic budget?
Not-for-Profit Organizations Can Budget for Profit or Surpluses

- Surpluses are necessary in order to fund:
  - Capital purchases
  - Debt repayment
  - Program expansion
  - Reserve accounts for weathering deficit periods
  - Unforeseen circumstances
Reviewing the Association’s Proposed Budget

When reviewing the Association budget it is important to pay attention to:

- **Column headings**
  - Actual Prior Year(s) Income or Expense
  - Budget for Current Fiscal Year
  - Budget for Prior Fiscal Year(s)
  - Proposed Budget for Coming Fiscal Year

- **The information provided is intended to help you determine reasonableness of proposed budget**
Reviewing the Association’s Proposed Budget

Use the same process learned in “Financial Statement Analysis in 8 Incredibly Easy Steps!” to effectively review the proposed budget.
Every Board Member Needs to Know and Understand Net Assets and Cash Reserves
Board Members Need to Understand Net Assets and Cash Reserves

(See Page 1R)

- Net Assets are the sum total of what the Association is worth

- Net Assets are **NOT** the amount available to spend on unbudgeted items
For Consideration

• What is your association’s net asset position? Is it positive or negative?
• Does your association have a plan for increasing its net assets?
• How much attention does your association devote towards reviewing and monitoring its net assets?
Board Members Need to Understand Net Assets

- Net assets = net worth
  - Includes non-expendable assets (property, equipment)
- You cannot really “spend” net assets
- You can have healthy cash and reserves on hand and still have negative net assets
- Designating net assets is not necessarily the same as establishing a reserve fund
  - “Designating” the net assets is not always necessary but can serve a purpose
Board Members Need to Understand Cash Reserves

• Reserves are a way of planning for uncertainty
  – Cash flow stabilization
  – Unplanned expenditures
  – Building improvements and capital expenditures
  – Local crisis assistance
  – Legislative action
  – Loan repayment
Methods for Establishing Reserves

• Budget for a surplus
• Budget for depreciation – and set an equal amount of cash aside
  • Use for future capital expenditures
• Set aside “windfalls”
  – Awarded attorneys fees from member rights cases
  – Unexpected membership growth
  – Unplanned expenditure savings
Factors to Consider for Determining Reserve Levels

- The mission and long-term plans or strategies of the association
- Future investment in property, plant and equipment
- The complexities of the debt structure
- Current and future commitments of the association
- The types of programs provided by the association
- If the association self-insures
For Consideration

• Does your Association have established reserves?
• For what purposes does your Association reserve funds?
• Does your Association have enough in reserves or too much? How do you know?
When are Reserves Spent?

• In some cases never
• As a cushion for unexpected revenue loss in the short-term to allow time to adjust the current budget and spending for the remainder of the fiscal year
• Based upon the purpose of the reserve – capital expenditures, local crisis, legislative action
NEA Contacts

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Session Outcomes

• The content from this session can be used in the following ways in your current position/role:
  – To help you understand the importance of your fiduciary role to your association
  – To help you understand financial statements and how to determine the financial health of your association
  – To make you a more effective “financial inquisitor” in your board meetings
  – To assist you in understanding the basics of budgeting
  – To help you understand why it is important for your association to establish cash reserves
Please complete the evaluation for this breakout session!