Learning Objectives

• Define Basic Finance Terms
• Read and Understand Basic Financial Statements
• Understand the Difference Between a 501-C6 and a 501-C3
• Basic Budgeting & Cash Flow Monitoring Procedures
• Answer Questions about Chamber’s Books & Records
• Understanding Audits and administrative reviews
• The New 990
Ground Rules:
• Relax and be Comfortable
• Ask Questions as They Arise
• Think in terms of your role as a CEO; responsible for the well-being and future of your organization. If you don’t understand an answer—ask again.
• If I don’t know the answer, I’ll do some research and send the answer back to the class via email!

Why Do YOU Need to Understand This Stuff?
• So that you can ensure that appropriate financial resources are available to support chamber initiatives.
• So that you can demonstrate sound financial management.
• So you can develop, recommend and implement budgets that support your strategic plan.
• So that you can develop a financial reporting system that provides clear, accurate and complete reports for your board.
• So you can establish value pricing of products, services and membership.

Accounting Concepts
Double entry accounting: Debit, Credit
• System of recording financial transactions that results in books and records that reflect the organization’s financial position.
• Think of the system as two drawers: Debits—items coming in, are on the left
• Credits—items going out are on the right.
• The net amount—is (hopefully) an excess of Revenues over Expenditures (in the for-profit world, this is Income)
Purpose of Financial Statements

Statements offer three main benefits:

- A tool to track the financial integrity of your organization.
- A decision-making tool that benefits both internal and external users.
- Provides evidence of accountability. Users can look to financial statements to gain assurance that there are proper controls over financial operations.
- Disclosure of activities. Financial statements identify the main programs and services of the organization and disclose related revenues and expenses.

Cash vs. Accrual Accounting

Benefits of accrual accounting:

- Matches income and expenses better to the periods in which income is earned or expense is incurred.
- Conforms with Finance Accounting Standards Board (FASB) and AICPA

Benefits of cash accounting:

- Simplicity
- Modified accrual: a compromise?
- Many smaller non-profits record income when received and expenses when paid, adjusting only for material income and expenditures between periods.

Cash vs. Accrual

- Example #1:

Your chamber’s year end is December 31. On December 20, you receive an advance payment on a sponsorship for an event that occurs in February of the following year. How do you record that transaction?
Cash vs. Accrual

• Example #1:
  On December 20:
  Cash $5,000
    Deferred Income $5,000

On January 1:
  Def. Income $5,000
  Sponsor Income $5,000

Cash vs. Accrual

• Example #2:

  You purchase airplane tickets before year end for a trip in the coming year in order to save money on the trip. How do you record the transaction?
Cash vs. Accrual

• Example #2:

On December 20:
Prepaid Expense $400
Cash $400

On January 1:
Travel Expense $400
Prepaid Expense $400

Cash vs. Accrual

• Questions about Cash vs. Accrual

Statement of Financial Position (Balance Sheet)

• Assets
  – Current Assets (Cash and Temporary Investments)
  – Accounts Receivable
    • Examples: Membership Dues Receivable, Sponsorships receivable, etc.
  – Prepaid Expenses
  – Capitalized Assets
    • Examples: Building, Furniture, Equipment
  – Depreciation
  – Restricted Cash
Statement of Financial Position (Balance Sheet)

• Liabilities and Net Assets
  – Current Liabilities
    • Accounts Payable
    • Current maturity of note payable
    • Deferred Revenues (membership dues)
  – Long Term Liabilities
    • Note Payable
  – Net Assets
    • Restricted Net Assets
    • Unrestricted Net Assets

Statement of Revenues Over Expenditures (Income Statement)

• Revenues
  – Dues
  – Event Revenues
  – Program Revenues
  – Product and Service Revenues
  – Investments
• Expenditures
  – Event Expenditures
  – Program Expenditures
  – Product and Service Expenditures
  – Supporting Services (General & Administrative)
• Excess of Revenues over Expenditures

Income Issues for Chambers

• Restricted Income vs. Unrestricted Income
  – It’s important to know the difference
  – If you promise members that a special donation goes to a specific cause —you must restrict it to the cause and account for this in your financial statements
Income Issues of Chambers

- **Unrelated Business Income Tax (subject to UBIT)**
  IRS Definition:
  - For most organizations, an activity is an unrelated business (and subject to unrelated business income tax) if it meets three requirements:
    - It is a trade or business,
    - It is regularly carried on, and
    - It is not substantially related to furthering the exempt purpose of the organization.
  - There are, however, a number of modifications, exclusions, and exceptions to the general definition of unrelated business income.

UBIT

- **Example:**
  Alumni association purpose is to promote education, scholarships and fund-raising. At TTU they sell trademarked merchandise (lamps, furniture, travel services, shirts, decals) that requires the payment of UBIT.

- **Common Activities:**
  - Advertising sales and income.
  - Rental property and management.
  - Income from controlled organizations. (i.e. insurance company)

UBIT

- **Tests to determine if you must pay the tax:**
  - Income must be from trade or business (any activity carried on from selling goods or performing services.
  - Regularly carried on.
  - Not substantially related to tax exempt purpose. (Mission statement?)
**UBIT**

- **4 Steps to Protect your Organization:**
  - Evaluate if your activities fit into UBIT determination.
  - **Consult with a tax expert!**
  - If a third party can do the selling for you, change the terms of the agreement.
  - Evaluate the benefit of to pay or not to pay UBIT.

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**501(c)(3) vs. 501(c)(6)**

- IRS determination of non-profit status – eliminates federal taxes on income from the activities related to the core mission
- This applies to both 501(c)(6) and (c)(3) organizations
- Being a non-profit doesn’t mean you can’t earn a “profit” (have revenues in excess of expenditures). It simply means that you do not pay taxes on the income related to your mission.

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**501(c)(3) vs. 501(c)(6)**

- 501(c)(3) is a charitable organization
- 501(c)(6) is a business membership organization
- Donations to 501(c)(3) are tax deductible to donor as charitable donation
- Donations to a 501(c)(6) are tax deductible as a business expense
- Foundations can give funds to a 501(c)(3) but not to a 501(c)(6)
- 501(c)(6) must monitor for UBIT
Budgeting

• A budget is a plan on how you spend your income before you spend it.
• A budget depicts what you expect to spend (expenses) and earn (revenue) over a time period.
• They are useful for projecting how much money you’ll need for a major initiative.
• They also help track whether you’re on plan or not. There are yearly (or annual or operating) budgets, cash budgets, capital budgets (for major assets, such as equipment, buildings, etc.) and proposal budgets (for fundraising), etc.
Steps in Budget Process

Quality budgeting starts with an accurate financial history.

• **STEP #1** Review program and management achievements and fiscal performance over past year.

• **STEP #2** Estimate costs required to achieve your objectives including staff, supplies and other resources. Take into account anticipated upcoming changes.

Steps in Budget Process

• **STEP #3** Carefully plan for personnel costs which are usually 60-70% of total expense budget.

• **STEP #4** Budget for income too. Start with past experience, making adjustments for future plans and changes.

Steps in Budget Process

• **STEP #5** Contingency budgets can be made in addition for more optimistic or conservative revenue projects.

• **STEP #6** Compare revenue and expense projections. At different times, organizations will choose to incur a deficit, realize a surplus, or simply break even. No rule says budgets must balance in each budget period.
Steps in Budget Process

• **STEP #7** If revenues and expenses are not in the desired relationship, programs and management activities must be re-evaluated.

  Timing of budget preparation:

  Start at least 4 or 5 months before the beginning of your next fiscal year.

Preparing a Monthly Budget

• Best practice: Prepare monthly budgets that reflect the anticipate timing of revenue and expense instead of taking a 12 month budget and dividing by 12.

  – Example: December fundraiser revenues would be included in November. December and January budgets to correspond when expected ticket sales would come in.

Types of Budgets

• **OPERATING BUDGET** (Based upon program of work)

• **CAPITAL BUDGET** (Reflecting major asset expenditures –affects balance sheet & cash)

• **CASH FLOW PROJECTIONS** (Necessary to determine the timing of cash receipts and disbursements so that you have enough money, when you need it, to pay the bills)
Who Creates the Budget?

- Each staff member responsible for specific program drafts budget showing revenue and expense, and rationale for each number.
- CFO and senior staff review consolidated budgets showing all programs/activities.
- President reviews and adjust budget.

The New 990

The new IRS 990 requirements were issued in December, 2007 to be filed in 2009. The new 990 requires detailed information on:
- salary and benefits (including health and retirement) from all related organizations to key employees
- fundraising expenses and public contributions
- noncash contributions
- loans
- tax exempt bonds and lobbying activities and expenses.

The New 990

You must disclose:
- the presence, absence and monitoring of various policies and procedures including:
  - conflicts of interest,
  - related party transactions,
  - self - dealing,
  - whistleblower protection,
  - document retention and destruction,
  - market – based compensation studies for key employees,
  - joint ventures with taxable organizations,
  - documentation of Board meetings and actions,
  - public disclosure of financial statements and governing documents