



AZPTA GUIDELINES FOR REVIEWING FINANCIAL REPORTS

Financial information should be routinely provided to members of an organization's Board of Directors. The ability to understand and analyze financial information is a crucial leadership skill and greater understanding of financial information will improve the oversight, planning and decision making ability of Board members.

Financial reports are to be presented in a form standardized by accounting and Internal Revenue Service requirements. Variations in these reports across organizations will exist depending on the organization type (non-profit, for-profit, tax-exempt) and the selected form of accounting method (cash or accrual).

Both the American Physical Therapy Association (APTA) and the Arizona Physical Therapy Association (AzPTA) are non-profit organizations that use the '**cash accounting**' system. The IRS status as a non-profit organization implies that there are no shareholders with an equity interest in the organization and no profit is distributed to members as a dividend or equity payment. Non-profit *does not* imply that the organization cannot make a profit (revenue over expenses) on activities or investments. A non-profit organization is not exempt from paying taxes or from filing information with various governmental organizations.

A cash accounting system records income when received and expenses when paid. It is important for Board members when analyzing a report to be informed as to expected income and unpaid expenses, which may affect a given financial report. In a cash accounting system, there are no accounts receivable or accounts payable lines on the financial reports.

As an AzPTA Board member you will routinely see the following reports:

- Budget
- Balance Sheet
- Income and Expenditures

Budget

The **Budget** is the best estimate of the amount of money available to spend in a given fiscal year and the desired allocation of how to spend the money. The AzPTA budget is developed by the Finance Committee based on requests by the officers and committee chairpersons, and modified and approved by the Board of Directors according to adopted policies and procedures. The Finance Committee can only suggest dollar expenditures based on board policy or approved activities. If no activities have been approved by the Board, the Finance Committee uses the prior year's activities as a guide. The Board has the authority to make budget line item adjustments while maintaining a balanced budget. The total line item budget is presented to the membership for information. The membership body approves **only** the total amount of the expected revenues and expenditures, not line items or amounts allocated to line items. Modification to line items and allocated amounts is a responsibility of the Board of Directors.

The AzPTA Budget is divided into four major categories:

- I. Primary income
- II. Secondary Income
- III. Primary Expenses
- IV. Secondary Expenses

Primary Income is composed of dues, interest, and investment income. Dues income is based on the anticipated membership in the association. Interest income is the amount of interest received on short-term savings and checking accounts. Investment income includes the interest and any appreciated gain received on liquidated investments. At the current time, the AzPTA uses interest from investments for operating purposes.

Secondary Income is composed of income from activities sponsored by the chapter. This includes meetings, continuing education, advertising, exhibitors, and sales of membership information. Board policy sets levels for the amounts charged or expected profit on these activities. The amounts budgeted in these areas reflect total revenues expected without expenses taken out of the amounts.

Primary Expense is composed of expenses incurred in activities directly related to the organization and its mission and goals. This category is subdivided into the main areas of functional activities: Awards, Committees, Delegates, Districts, Leadership Development, Membership, Office, Presidents Fund, Scholarship Fund, Strategic Planning and Task Forces. Each of these areas are further subdivided in the line item activity. The AzPTA does not budget specific activities within an area, however, the expectation is that the monies will be spent as requested in the budget request and according to the Board-approved program for the area.

Secondary Expenses is composed of the expenses incurred in specific activities or projects that the Board has approved. These activities are most likely not in the bylaw functions of the association, but are considered by the Board to be activities necessary to the chapter. These areas include Legislative Counsel, Payer Relations, Public Relations, Web Page, etc.

The Board currently operates on a **non-deficit budget**. This means that expenses may not exceed income received without specific Board approval to use the reserve funds. The non-deficit budget policy requires the Board to monitor revenue and expenses throughout the year to ensure that if revenue expectations are not met, then expenses must be altered to avoid deficit spending.

Analysis of the Budget: Analysis of the budget by Board members should be based on the balance of anticipated revenue and expenses. The estimates should be made based on accepted trends and actual past performances. It is preferable to underestimate revenues and to overestimate expenses. Reallocations in budget amounts should be done only after analysis of the activities that are to be eliminated from one area to fund other activities. In the case of chronic overruns by specific committees or officers, the Board must be ready to act by reprimand, removal from office, or denial of the expense. A strict policy on payment of unapproved or over-expenses serves to protect the chapter and is well within the purview and responsibility of the Executive Board.

Balance Sheet

The **Balance Sheet** presents the summarized financial state of the association at a given point in time. Accounting principles require the two sections of the balance sheet, assets and liabilities and equity to equal or 'balance'. Assets include all monies and property owned by the association. Liabilities include monies dedicated for specific long-term functions, equity or savings, and any operating profits or losses. In reading a balance sheet, care must be taken to assume that the assets represent money to be spent. The budget normally allocates all available funds to different activities. New activities must be funded through budget re-allocations or generation of new revenues.

AzPTA 's **assets** include three active accounts, a checking account used for paying operating expenses; a savings account for holding excess short-term funds, and an investment account which has the reserve fund accounts and monies for long-term purposes. Other assets include prepaids (postage, registration fees, etc) and AV equipment.

AzPTA's **liabilities and equities** include dedicated funds for the reserve fund, payer relations, and clinical research funds. Equity funds represent cash on hand to pay for operating expenses. Investment losses and net operating loses are also included.

Analysis of the Balance Sheet should examine changes in the balance sheet from month to month relative to what activities or expenses were incurred during the cycle. The Income and Expenditure report will provide that information. In a cash accounting system, the balance sheet is only valid on the date given and only if unpaid expenses are not being held. A Board of Directors must have confidence in their executive staff that an accurate balance sheet is being prepared. Questions to ask on the balance sheet include "Are any outstanding expenses being held at this time?" and "What revenue is reflected in this report of which corresponding expenses have not been paid?"

Income and Expenditure Report

The income and expenditure report presents a concise picture of the financial operations of the chapter over a specific period of time. The AzPTA income and expenditure report is presented with the original approved budget, any reallocated budget, monthly income and expenditure amounts by line items, and a year-to-date total. Line items correspond directly with budget line items. The Income and Expenditure report also includes a total expense and net income (loss) amount. The most relevant net income (loss) figure is the year-to-date figure. Monthly figures represent only an excess or deficit cash position.

Analysis of the Income and Expenditure report should first compare line item year-to-date with the budgeted amount. These figures should be viewed considering the calendar year and time remaining in the fiscal year. At mid-year, line items with no expenditures can be considered for reallocation, while line items near their budgeted maximum should be viewed carefully and discussed with the responsible officer or committee chairperson.

A second area of analysis should be to carefully evaluate the revenue and adjust spending if revenue does not meet expectations. Board members should be provided annual trends from previous years in revenue sources. The membership report provided to AzPTA Board members is the primary source of trend data.

The **Reserve Fund** is the savings and emergency fund of the association. This fund is to ensure the financial viability of the association in case of emergency. The goal is to hold a minimum of 30% of the anticipated revenue for a given year. The preferred amount in a reserve fund is a 50% level of anticipated revenue.

Reserve funds may be used if the following conditions are met:

1. Any expenditure from the reserve fund would require 2/3 vote of the Executive Board;
2. The reserve fund can be used to offset part or all of a potential special assessment;
3. The reserve fund is not intended to be used as a backup for line item budget;
4. The reserve fund can be used for a major expense that was not anticipated and therefore not budgeted for – the potential benefit/impact of which outweighs the loss from not using the fund.

The Fiduciary responsibility of a Board of Directors to the membership is a major duty and responsibility. The Treasurer is primarily responsible for oversight but all Board members should understand and be able to analyze the financial reports and status of the organization they lead.