

Finance Vice-Chair Report for 2010 House of Delegates Meeting

MSI Membership:

This past year, membership numbers have increased. Meet entry fees and splash fees have also increased as the economy seems to show some weak signs of recovery.

Expenditures continue to remain within or under budget. Our annual audit, performed by Harrington, Langer & Associates, identified no issues or significant concerns.

The question arose this year about MSI's reserves and overall cash balances. As with for-profit businesses, nonprofit organizations such as MSI work to keep a balance between operating income and expenses.

An operating reserve is an unrestricted fund balance that has been set aside to provide stability to a nonprofit's finances. It serves as a cushion against future unforeseen cash flow shortages, expenses or losses. Reserves can cover short-term problems such as delayed payments or seasonal cash swings, which can cause cash shortages for a nonprofit. Reserves can also be used to pay unexpected and unbudgeted expenses, such as the purchase of the Colorado equipment in 2009. Reserves should not be used to make up for income shortfalls, unless the organization has a plan to replace the income or reduce expenses in the near-term future. Reserves are used as "float" to overcome timing problems, not deficit problems. Reserves enable an organization to withstand operating shortfalls caused by economic conditions or management error. Reserves give an organization flexibility to develop new programs or expand services. Reserves enhance an organization's opportunities for growth, expansion, or change in the focus of programs and activities. Reserves are not the same as restricted funds. Restricted funds are contributions that have been received that have to be used according to the grant requirements or donor's instructions. Reserves are "unrestricted" funds that can be used in any way that the nonprofit decides.

Usually reserves are built up over time by accruing an unrestricted surplus – more income than expenses – at the end of the year and setting the cash aside in a segregated account. There are some guidelines for setting operating reserve goals. These are usually based on the idea that nonprofits need to have, at a minimum, enough unrestricted cash to cover operating expenses for a number of months. Reserves should not exceed the amount of two years' budget. However, these standard calculations don't take some important variables into account, like the stability of the nonprofits cash receipts. Organizations that have seasonal activities need higher reserves. To truly be an operating reserve, there should be a board agreement and policy about how reserve funds can be used. The policy should describe when these cash funds can be used, who is authorized to use them, and how this is reported to the board. Some boards noting these funds as a "Board designated reserve" on their financial statements. This helps to remind the board/constituency that reserves are in place. Without a policy and agreement, reserve funds tend to be gradually spent down over time, and are not available the next time the funds are really needed.

MSI's Finance Committee is currently reviewing the reserve status and various MSI fees to ensure that these are in line with MSI's mission.

Our 2010-2011 fiscal year is likely to be challenging in the present economic climate, but we will continue to monitor the fiscal well-being of MSI while striving to maintain quality services for our membership.

Thank you for the opportunity to serve MSI. Please feel free to contact me regarding any financial issues with MSI.

Respectfully submitted,

Terri Meeks
Finance Vice-Chair

Referenced Reports:
2010-2011 Proposed Budget

Sources:

Nonprofits Assistance Fund, http://www.nonprofitsassistancefund.org/pages/Resources_Reserves

Financial Accounting Standards Board, The Non-Profit Resource Center, "Financial Statements of Not-For-Profit Organization", <http://www.1800net.com/nprc/fasb117.html>

"Criteria for Nonprofits' Operating Reserves" by Thomas J. Raffa, <http://www.iknow.org/pages/articles/criteria.html>