

AREA

Financial Management Guide

Updated February 2012



RI **RECOVERY**
INTERNATIONAL

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Acknowledgments:

There have been many changes in our organization since the Area Financial Management Guide was last revised in 2009. Some of these changes involve the ways in which Group Leaders and Area Leaders account for and report Area revenues and expenses. Others involve the recognition that Recovery International (RI) is now only one of the programs of our umbrella organization, Recovery International. (RI)

This revision is a publication of the Finance Committee of RI and is designed to guide those volunteers who maintain the Area books for RI. We would like to acknowledge the assistance of all members of the Finance Committee as well as Staff members and others who reviewed the text and offered thoughtful suggestions. Your efforts are acknowledged and appreciated.

Rudy Pruden, Treasurer and Chair, Finance Committee, RI
February, 2012

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INTRODUCTION

As a nonprofit organization funded heavily through Public Support, RI, a program of RI, has an obligation to follow sound financial management practices. Like any other organization, we must have a firm financial base to carry out our mission; we require sufficient revenue to reach our goals and we need to spend that money as productively as possible and account for it efficiently. At Headquarters, the accounting function is performed by staff members and is overseen by the Finance Committee. Headquarters prepares monthly reports to keep track of assets and liabilities, revenues and expenses. Budgets are generated to allocate money for projects. The work can be difficult and time-consuming but it is also rewarding. Being financially sound enables RI to more readily work towards our goal of helping individuals gain skills to lead more peaceful and productive lives.

At the Area level, financial management is the responsibility of the Area Leader or Area Leadership Team (AL/ALT), with specific responsibilities assigned to the Area Treasurer. The monthly and annual Area financial reports play an essential part in Headquarters' financial management process. The Area Monthly Financial Report summarizes the monthly voluntary contributions collected in the Area, an important revenue source for both Headquarters and the Area. The Annual Area Financial Report summarizes all sources of Area revenue and expense for the year and provides a snapshot of how the Area fared financially during the previous twelve months. The Area reports are taken into account each year by our outside auditors when they audit the RI books. The monthly and annual reports not only help the staff in Chicago, they also provide information the Areas require in order to budget for their future needs.

The purpose of this manual is to serve as a guide for Area volunteers who maintain the Area books. It provides instructions for the completion of the monthly and annual financial reports as well as manual and Excel versions of a simple bookkeeping system that includes revenue and expense accounts. A simple annual budget format is also provided.

FISCAL POLICIES AND PROCEDURES

It is helpful to review fiscal policies and procedures developed by the Finance Committee and approved by the RI Board of Directors before examining specific financial tools and reports.

- All monies collected in the name of RI belong to RI, not to the Area. This is an important distinction relevant to all contributions to RI, including voluntary contributions collected at RI meetings and any additional donations/gifts made to Areas. (See Area Fundraising Guidelines, p. 12)
- Although the Area Treasurer does the actual bookkeeping, the AL/ALT should review Area finances monthly and should be responsible for preparing the Area's annual budget.

- The AL/ALT appoints the Area Treasurer. If an Area Leader administers an Area, that person *should not* also serve as Area Treasurer. Further, good business practice mandates that the Area Leader and Area Treasurer should be unrelated and not living under the same roof. Likewise, if an Area Team administers an Area, the Treasurer should not be related to or living under the same roof as *any other member* of the Area Team. The Area Treasurer should in most cases be a member of the Area Team as s/he can provide valuable information about Area finances.
- Area level accounting is *cash basis* accounting. We recognize revenue at the time we receive it and we recognize expenses at the time we pay them. Area level accounting follows a basic accounting equation: Revenues – Expenses = Net Income [Loss].
- The fiscal year begins on January 1st and ends on December 31st.
- All Area expenses must be supported by receipts or other documentation and should be paid from the Area checking account.
- All Area personnel are unpaid volunteers. Reimbursable expenses are paid to Area personnel in accord with RI policies.
- Generally acceptable Area expenses are listed on p. 10, *Expense Categories*. If the Area incurs an expense that doesn't appear to fit in one of these categories, please contact Headquarters.
- The most important element of any transaction is its authorization. At the Area level, the AL/ALT is responsible for authorizing all expenses.
- RI is a nonprofit corporation exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code. If you do not have a copy of the current IRS exemption letter, please contact Headquarters and request one. Depending on your state and local laws, your Area may also be exempt from state and local sales tax. You need to check with your state and local tax authority and comply with statutory requirements.
- Our general guideline is that an Area should not keep more than \$200-\$250 per group meeting in its treasury (e.g., 10 groups = \$2,000-\$2,500). Excess funds should be transmitted to RI Headquarters to fund the international budget. However, Areas may occasionally require a greater amount of cash on hand. For example, an Area may be planning a Leaders' Training Conference, may be saving to send Leaders to the May Annual Conference or engaging in an outreach/PR strategy requiring funding for advertising or publications. It is important that each Area develop an annual budget that prioritizes activities and estimates the funds needed to carry them out. Please refer to the Area Budget for the Year 2xxx form in the Appendix.
- Area financial records including bank transactions should be retained for seven years.

FINANCIAL MANAGEMENT TOOLS:

The tools available for Area Accounting are:

- Area Checking Account
- RI Monthly Verification of Voluntary Contribution (Rev.4/10)
- Group Monthly Expense Form (Rev. 8/09)
- Area Monthly Financial Report (Rev. 1/11) (Manual or Excel Version)
- Manual Revenue and Expense Account forms for posting **or**
 - Excel Workbook Annual Area Financial Report With Accounts (Rev.1/11)
- Annual Area Financial Report (Manual or Excel Version) (Rev.2/09)
- Annual Area Budget for the Year 2xxx (Rev.3/09)

Examples of the manual versions of the reports are in the Appendix. Excel spreadsheets can be emailed upon request from Headquarters or can be downloaded from the Area Treasurer Forum. The password is cashola.

Managing the Area Checking Account

Areas must provide Headquarters with their Area checking account information. This includes the name and address of the bank, the bank account number and the names of all of those currently authorized to sign checks. At the request of our auditors, **the signature of a senior Headquarters Staff Member must be included on all Area bank account signature cards.** When opening an Area checking account, please pay attention to the following requirements:

- RI is a nonprofit organization. Try to find a bank that will waive monthly service charges and does not insist on a minimum balance for free checking. If you can find one that also pays interest, so much the better.
- The bank should have branch locations convenient for the Area Treasurer or others who make Area deposits.
- The account title must include **“Recovery International” or “RI” along with the Area Number and Name.** An example would be: **Recovery International, Area 145, Northern Ohio West.** The account should be opened under the **RI** federal Employee Identification Number (EIN), not under a personal Social Security number. If you do not have our EIN, please contact Headquarters.

- There should be only one Area Checking Account. Individual groups should not have accounts. This helps the AL/ALT keep control of Area funds. There is no need for an Area savings account. Funds in excess of the amount needed to conduct Area business are to be transferred to Headquarters.
- Two signatures are preferred on Area checks. This is a safeguard for RI and for the person signing the checks as well. You may wish to have additional Area personnel on the signature card for convenience. If physical distance or some other valid reason makes it difficult to have two signatures on the check, the Area Treasurer's signature will suffice but the AL/ALT is required to review the Area Monthly Financial Report and the bank statement each month. All payments from the Area checking account must have adequate documentation.
- All revenue and expense items are initially entered in the checkbook. Before the end of the month they are posted to the appropriate accounts as explained below.
- The checking account must be balanced every month on the Bank Statement Reconciliation portion of the Area Monthly Financial Report.

RI Monthly Verification of Voluntary Contribution (Hereinafter MVVC)

Please see Appendix for a sample report

The RI MVVC form is designed to help track the receipt of the Voluntary Contribution from the Group Leader to the Area Treasurer to Headquarters. It is part of a procedure requested by our auditor.

- At the beginning of each month the Group Leader fills in the Area and Group information requested at the top of the form.
- At each meeting during the month the Group Leader fills in the Meeting Date, Number of Attendees and AMT. Collected blocks. Two people count the Voluntary Contribution and initial the Initials of Verifiers block. They also enter their names and telephone numbers on the lines below the blocks.
- At the end of the month the Group Leader totals the amounts collected during the month. S/he keeps the pink copy and sends the white and yellow copies and a check for the Voluntary Contribution to the Area Treasurer.
- The Area Treasurer keeps the yellow copies and mails the white copies of the RI MVVC to Headquarters along with the Area Monthly Report and Area check.
- Headquarters is able to match the amount of the check from the Area Treasurer with the amounts on the Area Monthly Financial Report and with the RI MVVC forms from the Groups.

Group Monthly Expense Form (Rev.08/09)

Please see Appendix for sample report

The Group Monthly Expense Form takes the place of the “Authorized Expenses” section of the old Group Monthly Financial Report from 07/91. It avoids offsetting group expenses against voluntary contributions thereby helping to allocate expenses more accurately.

Area Leaders, Group Leaders and others requesting reimbursement are required to fill out the Group Monthly Expense Form.

- All expenses must be preapproved by the AL/ALT.
- All receipts or invoices must be attached.
- Fill out the form per the sample report in the Appendix
- The completed form together with receipts/invoices is to be given to the Area Treasurer.

Area Treasurer Month End Procedures

Each month, the Area Treasurer produces an Area Monthly Financial Report based on the information provided by the Group Leaders in their RI MVVC reports. Before s/he can produce this report, the following tasks must be completed.

- Collect all of the MVVC reports and voluntary contributions. If a Group Leader does not submit reports, be sure you understand the reason.
- Group Leaders need to know they are to turn in their reports and voluntary contributions to the Area Treasurer by the 5th of the following month.
- Contact Group Leaders whose reports are not received by the 10th of the month. Refer constant procrastinators to the AL/ALT.
- Check the reports for accuracy and completeness. Resolve discrepancies with the Group Leader.
- When all reports and voluntary contributions have been received, prepare the bank deposit.
- Endorse all checks and money orders for deposit. Obtain a deposit stamp if you don't have one. Typically it will read:

For Deposit Only
RI Area # 145
Northern Ohio West
Account No. 123 456 7890

- Add up the checks, fill out the deposit slip, make the deposit and file the deposit receipt.
- You are now ready to prepare the Area Monthly Financial Report

Area Monthly Financial Report (Rev.01/11)

Please see Appendix for sample report

This report comes in two versions, manual or Excel. In the manual version you must make the calculations yourself. The Excel version does the math for you. Both use the same report format. If you want to use the Excel version, Headquarters will email it to you or you can download it from the Area Treasurer Forum. The password is cashola.

1. At the top of page 1 enter the Area name, Area number and name of the Area Leader/Area Team Contact.
2. List the required information from the MVVC reports on separate lines as called for in the columns designated Group Name/Location and A through F. If you are using the manual version, perform the computations as called for in columns B, C and F. If you are using the Excel version, the program will make the calculations for you.
3. Complete the Total This Page and Monthly Totals on page 1 if you are using the manual version. Also compute the Average Attendance Per Meeting and Average Vol. Contrib. Per Person Per Meeting at the bottom of page 1. (Page 2 is only necessary if your Area has more groups than there are lines on page 1.)
4. Page 3 of the report contains Part 2: Bank Statement Reconciliation. Please remember to include a copy of the current bank statement when submitting the completed report to Headquarters and to the AL/ALT.
5. Fill in the blanks with the required information from the bank statement and checkbook. If all computations are done correctly, line 5 (Adjusted Balance) will equal line 10 (Adjusted Checkbook Balance.) If it does not balance, review your computations.
6. A copy of this report together with the white copies of the MVVC reports, a copy of the bank statement and a check made out to RI for 80% of Column A (computed in Column B, Monthly Totals) should be sent to Headquarters by the 20th of the month.
7. A copy of the report and bank statement should also be sent to the AL/ALT. The Area Treasurer keeps the yellow copies of the Group Reports (unless the AL/ALT Contact requests them) as well as copies of all other reports.

The Posting Process: Transferring Entries From the Checkbook to Revenue and Expense Accounts

While it is possible in a small Area to perform the monthly bookkeeping function with only the checkbook and the Area Monthly Financial Report, it is a good financial management practice to post all revenue and expenses to summary sheets which are called *accounts*. There is a separate account for each type of revenue and expense. “Posting” simply involves transferring checkbook and Area Monthly Financial Report entries to the appropriate account. Deposits are posted to revenue accounts, while checks and bank charges are posted to expense accounts. In this manner, categories of revenues and expenses can be compiled and reviewed.

Choices in the Posting Process

Commercial Software Programs

You have choices in the posting process. If you have been using Quicken, QuickBooks or some other software program for posting and for creation of financial statements for your Area, please feel free to continue doing so. However, please use the RI formats for the Area Monthly Financial Report and the Annual Area Financial Report as illustrated in the Appendix.

Excel Workbook Annual Area Financial Report With Accounts

If you don't have a bookkeeping software program but you do have Excel, try the Excel Annual Area Financial Report With Accounts which can be emailed to you from Headquarters or downloaded from the Area Treasurer Forum. The program is an Excel workbook in which the first page is the Annual Area Financial Report and the subsequent pages are the revenue and expense accounts. All accounts are linked by Excel formulas back to the applicable lines on the first page.

- Postings are made from the checkbook and the Area Monthly Financial Report to the accounts. The workbook automatically transfers them to the correct line on the Annual Area Financial Report.
- The monthly totals from column A on each Area Monthly Financial Report are posted to Recovery Int. Voluntary Contrib Group Collections Income for the applicable month. (Excel Tab = VC)
- The monthly total from Column B is posted to 80% of Total Group Collections Sent to Headquarters Expense. (Excel Tab = GrpColl)
- Other revenue and expenses are entered on the applicable accounts and the workbook does the rest.
- When you post the final entries for the year, your Annual Area Financial Report is complete. In addition, interim reports can be printed at any time.

Posting Manually (“I’d Rather Do It Myself”)

If you really don't like software programs and would prefer to do the whole posting job by hand, please see the sample accounts in the Appendix. You can make copies of these samples and use them to create a ledger from which you can derive the Annual Area Financial Report as well as interim reports.

- The monthly totals from columns A on each Area Monthly Financial Report are posted to Recovery Int. Voluntary Contrib Group Collections Income for the applicable month.
- The monthly total from column B is posted to the 80% of Total Group Collections Sent to Headquarters Expense.
- The sample accounts in the Appendix also contain generic revenue and expense accounts that can be copied and given the names of the revenue and expense categories listed on the Annual Area Financial Report.
- At the end of the year the totals are posted from all of the accounts to the applicable lines on the Annual Area Financial Report.

Revenue and Expense Categories

Revenues

RI has a number of revenue sources besides voluntary contributions collected at meetings. Those that pertain to Area accounting are listed below. Each of these is the title of a revenue account and each has a corresponding line with the same title under “Other Income” on the Annual Area Financial Report. This eases the task of creating the Annual Area Financial Report if you are posting manually. All revenue items are posted from the checkbook to the appropriate revenue account and ultimately to the Annual Area Financial Report either manually or in Excel.

Types of Revenue:

- Proceeds from Fundraising Activities: Revenue received from fundraising activities such as participation in a local NAMI walk, a Yard Sale or Bake Sale.
- Development Funds Received from Headquarters: Funds for special projects received from Headquarters. (See *Development Funds* (p. 12).
- Grants/Contributions: From Corporations: Grants or contributions received from a business or corporation. (See p. 12 *Area Fundraising Guidelines*)
- Grants/Contributions: From Foundation, Other Organizations: Grants received from a nonprofit foundation such as a community or family foundation. (See p. 12 *Area Fundraising Guidelines*)
- Grants/Contributions: From Individuals: Any contributions from Individuals. (See p. 12 *Area Fundraising Guidelines*)
- Contributions from Leaders’ Meetings/Other Area Events: Contributions collected at Leaders’ Meetings or other Area events.
- Literature Sales by the Area (NOT Revolving Literature Fund Sales): Income received from selling RI literature that is not part of the Revolving Literature Fund.
- Other Income: Specify (i.e. Interest on checking account): Please explain source on form.
- Other Income: Specify (i.e. Reimbursement for demo panels, Holiday Party, Picnic): Please explain source on form.

Expenses

In addition to “Total Voluntary Contributions Remitted to Headquarters”, there are a number of other Area expense categories. They are listed on the Annual Area Financial Report under “Area Expenses.” As in the case of revenue, each expense item is the title of an expense account. All expense items are posted from the checkbook to the applicable account and ultimately by hand or in Excel to the applicable expense category on the Annual Area Financial Report.

Types of Expenses:

- **Literature Purchased by the Area:** Cost of all books and literature purchased by the Area whether or not the literature was eventually resold.
- **Office Supplies:** Cost of all consumable supplies purchased during the year including computer software, ink cartridges, etc.
- **Postage/Shipping/P.O. Box Rental:** Cost of postage, shipping, delivery/messenger service, post office box rental.
- **Telephone/Voicemail:** Cost of telephone, voice mail, anything related to voice communications.
- **Printing/Copying:** Copying and printing expenses for both administrative and public relations materials.
- **Group Meeting Places (Rent, Gratuities):** All fees, rent or contributions paid for group meeting places.
- **Equipment Purchase/Repair (Tape/CD Players, Computers, etc.):** Total expenses for equipment purchase and repair.
- **Leader Training & Meeting Expenses (travel, meals, lodging):** Total expenses for Leaders’ Meetings and for the Area’s Leader Training Conference if there was one.
- **Other Area Travel (specify):** May Annual Meeting, Area Leaders’ Conference, participation in workshops and seminars offered by other organizations.
- **Public Relations/Communications:** All public relations and communications expenses including fees paid for advertising, exhibit tables, etc.
- **Special Events (dinners, picnics, etc.):** Total cost of special events.
- **Fund Transfers to Headquarters (in excess of 80% Vol.Cont.):** Area contributions to Headquarters *over and above* the monthly 80% of total voluntary contributions.
- **Other Area Expenses: Specify** (Donations, membership fees in other organizations, etc.): Please specify expense items in this category.

Completing the Annual Area Financial Report

The creation of the Annual Area Financial Report is the final step in the accounting cycle. It involves transferring the total year-end revenue and expense account balances to the

corresponding lines on the Annual Area Financial Report and reconciling the current year-end checkbook balance with the previous year-end checkbook balance. As in the case of posting to accounts, there are choices.

If you have been using Quicken, QuickBooks or other software program to maintain the accounts, simply transfer the year-end balances to the appropriate lines on the Annual Area Financial Report. You may use either the manual or Excel version. Complete the CASH SUMMARY section on the second page and your Total Cash Balance for the current year-end should equal your checkbook balance for the same date. Complete the Summary of Area Assets section, sign the report and you are done.

If you use the Excel Workbook Annual Area Financial Report With Accounts, creation of the annual report is a yearlong process. Begin by entering the checkbook balance for 12/31 of the previous year on the first line of the CASH SUMMARY section of the report. Then, every month throughout the year, post all revenue and expenses from the checkbook and the Area Monthly Financial Reports to the applicable accounts. The workbook will make the computations and will transfer the correct balances to the applicable lines on the Annual Area Financial Report.

If you have been posting manually to the account forms found in the Appendix, the process is a little more complex than if you are using a software-based system.

- The figure for line (1) on the Annual Area Financial Report is taken from the Total Collections column of the Recovery Int. Voluntary Contrib Group Collections Income account. (See Appendix for sample account forms)
- The figure for line (2) is taken from the Amount column of the 80% of Total Group Collections Sent to Headquarters Expense. (See Appendix for sample account forms)
- Line (3) is the difference between lines (1) and (2).
- The figures for the Other Income and Area Expenses are taken from the income and expense accounts you created using the generic forms in the Appendix.
- When all account balances are filled in on the Annual Area Financial Report, perform the computations called for on lines (3), (13), (14), (29) and (30).
- Complete the CASH SUMMARY section and Total Cash Balance for the current year-end should equal your checkbook balance for the same date.
- Complete the Summary of Area Assets and sign the report.

Area Budgeting

See Appendix for Sample Budget Format

The beginning of the year is an opportune time for an Area meeting to review the accomplishments of the preceding year and to make plans for the upcoming one. Your Annual Area Financial Report can help in this process by providing recent revenue and expense data that

will aid you in estimating income for the current year. New projects may need funding. Perhaps there is an upcoming Leaders' Training Conference or maybe the Area would like to cover the cost of sending several people to the Annual Conference in May. If the Area's voluntary contributions are unlikely to cover these expenses, alternate revenue sources must be found. The Area Budget for the Year 2xxx form lists the primary revenue and expense accounts found on the Annual Area Financial Statement along with 12 columns for the monthly budget figures. It is a helpful worksheet for creating a budget and tracking the results. Additional budget meetings may be scheduled during the year if necessary to discuss Area finances and fundraising goals. If you require assistance with the Area Budget, Headquarters or the Finance Committee will be happy to help.

Development Funds from Headquarters

See Appendix for "Development Fund Request" Form

If your Area budget is unable to fund proposed projects, one possibility is to apply to Headquarters for Development Funds for specific projects. Examples are start-up costs for a new group, support for your Leader Training Conference or for special leader workshops, or travel costs for those attending meetings in Chicago. If your Area would like to request Development Funds, please complete this form and send it in to Headquarters well in advance of the proposed project start date.

Area Fundraising Guidelines

The AL/ALT must approve all Area fundraising. Requests for grants or other funding from local foundations, businesses and individuals should first be cleared through Headquarters to avoid duplication. Headquarters staff can also provide assistance and support in your fundraising work as can your Regional Leader.

Financial gifts made to your Area need to be sent to Headquarters in order that an appropriate receipt and acknowledgement letter may be sent to the donor. This will ensure that the donor will have proper documentation for claiming the gift as a tax deduction. Such gifts should be made directly to Headquarters, which will then issue a check to the Area in the full amount of the gift.

APPENDIX

Manual copies of these forms are included in the Appendix. Excel versions of those marked with * are available from Headquarters. Other forms are available as Microsoft Word or Adobe (.pdf) documents via email from Headquarters.

RI Monthly Verification of Voluntary Contribution (Rev. 4/10)

Group Monthly Expense Form (Rev.08/09)

Area Monthly Financial Report (Manual, Rev. 1/20/11; Excel, Rev. 1/11) *

Sample Revenue and Expense Account Forms for Manual Posting

Excel Workbook: Annual Area Financial Report with Accounts (Rev. 1/11)*

Annual Area Financial Report (Manual, Rev. 2/09) *

Area Budget for the Year 2xxx (Rev. 3/09) *

Request for Development Funds

Addenda

Mileage Reimbursement to Volunteers

As of 2009, the IRS considers mileage reimbursement to volunteers in excess of 14 cents per mile to be taxable income for the volunteer. If your Area is paying volunteers mileage in excess of 14 cents per mile, please inform the volunteer that s/he is responsible for the income tax on the excess. RI is not required to send Form 1099's unless the annual excess mileage payment to the volunteer exceeds \$600.