



▶ **EFFECTIVE FINANCIAL
PLANNING AND MANAGEMENT**
for local Home Builders' Associations
2008

Table of Contents

Introduction	3
How Does Your Association Rate on Effective Financial Planning and Management?	4
CHAPTER 1: Overview of Financing Management	7
What are the Objectives?	7
What is Involved?	7
Who is Involved?	7
CHAPTER 2: The Framework	9
Mission	9
Objectives	9
Operating Principles	10
Setting Your Goals	10
CHAPTER 3: The Resources	13
Human Resources	13
Financial Resources	15
CHAPTER 4: Planning and Budgeting	21
The Work Plan	21
The Budgeting Process	21
Longer-term Budgeting	25
Reserve Funds	25
CHAPTER 5: Tracking and Evaluating	27
Short-Term Budgets	27
Cash Flow Management	28
Evaluation of Activities and Events	28
Signing Authority	29
CHAPTER 6: Increasing Core Revenues	29
Increasing the Membership	29
Increasing Membership Fees	30
Cost-Effectiveness	30
CHAPTER 7: Accounting	32
Definition	32
Purpose	32
Audiences	33
The System	33
The Records	33
Cash or Accrual Accounting	33
Financial Reports	34
Taxation	35
CHAPTER 8: Additional Considerations	37
Incorporation	37
Insurance	38
Communication With Members	38

APPENDICES

Appendix A: Non-Dues Revenue Concept Assessment Process

Appendix B: Examples

Introduction

Financial management is one of the most important keys to the success of a local home builders' association (HBA)*. It is a prerequisite for effective leadership—without sound financial planning and management, your HBA cannot serve its members properly.

Although sometimes approached as an issue “for the experts”, financial management does not need to be complex or time-consuming. Sound financial management relies on a systematic approach that allows your association to provide services to members in a fiscally responsible manner.

Proper accounting practices are an integral part of financial management. They must be implemented in order to provide financial information for the purposes of decision-making and budgetary control. Such practices are also required to fulfill the requirements of accountability to members, as well as to governments and other agencies.

This manual on financial management for local home builders' associations has been developed to assist both elected officials and Executive Officers (EOs) in providing more effective leadership. It will:

- offer an understanding of the framework for financial planning and management for local HBAs
- discuss a number of factors that influence financial decision-making

- present an overview of accounting practices to assist those in charge of the association's financial affairs in maintaining clear and logical financial records.

The first step in developing a successful approach to effective financial planning and management is to assess your HBA's current approach. The survey on the following pages will allow you to review your efforts and activities in a number of areas related to financial planning and management. Then, with the results of the survey in mind, you are ready to read the rest of the manual, selecting the information that is of particular interest and benefit to your association.

* The information in this manual is equally useful for provincial associations.

How does your association rate on effective financial planning and management?

Please answer “yes” or “no” to the following questions. Once you have completed all the categories, go to the end of the survey to evaluate how your association rates.

<u>OVERALL PLANNING AND MANAGEMENT</u>	YES	NO
1. Our association has developed a strategic plan that describes our long-term objectives.	_____	_____
2. The strategic plan is a collaborative effort that involves all or some of the following: the board of directors, the executive committee, other committees and the EO and other staff.	_____	_____
3. We prepare an annual work plan based on our strategic plan.	_____	_____
4. We review our services and activities on a regular basis.	_____	_____
5. We evaluate our members’ needs and wants against our services and activities.	_____	_____
6. We have an established process for initiating new services and activities.	_____	_____
7. Members of our board of directors change on a staggered basis to minimize disruption in our ongoing financial planning and management process.	_____	_____
8. Our association conducts an orientation session for new board members.	_____	_____
Subtotal score	_____	_____

<u>BUDGETING</u>	YES	NO
1. Our association prepares an annual budget.	_____	_____
2. It is our practice not to assume that this year’s budget will be exactly like last year’s budget.	_____	_____
3. The budget is based on a work plan of activities for the current year.	_____	_____
4. Our approach to budgeting is based on realism, caution and past performance.	_____	_____
5. We are careful not to overestimate revenues or underestimate expenses.	_____	_____
6. We budget for our reserve fund.	_____	_____
7. We have an effective monitoring process in place for balancing the budget.	_____	_____
8. We provide supportive, written information for board members as needed when presenting the budget for approval.	_____	_____
Subtotal score	_____	_____

MEMBERSHIP FEES

	YES	NO
1. Our membership fees have increased in the past two years as a reflection of the range of services offered to members.	_____	_____
2. It is our policy not to offer prizes or other incentives for joining our association.	_____	_____
3. It is our practice not to discount our fees as a membership inducement.	_____	_____
4. Our members know how their fees are being used; we tell them regularly.	_____	_____
5. We communicate the value of membership to our members regularly and consistently.	_____	_____
6. We plan for small, regular increases in membership fees, rather than large, infrequent ones.	_____	_____
7. We enlist the support of well-informed key members to help to generate acceptance for an increase.	_____	_____
8. Our membership development approach stresses both retention and recruitment.	_____	_____
Subtotal score	_____	_____

GENERATING NON-DUES REVENUES

	YES	NO
1. We have developed a stable menu of successful fundraisers.	_____	_____
2. We do not rely solely on the success of one single fundraiser.	_____	_____
3. Revenue from fundraisers is used to improve our services—not to underwrite ongoing operational expenses.	_____	_____
4. We present our potential sponsors/partners with real and valuable business opportunities in a professional manner.	_____	_____
5. We always give our sponsors/partners a full report upon the completion of the event/activity that they were involved with.	_____	_____
6. Each sponsor/partner receives recognition and acknowledgment in proportion to their contributions.	_____	_____
7. We insist that sponsors/partners are members of our association.	_____	_____
8. We keep important information about fundraising events, sponsors and donations on file to maximize our effectiveness in the face of constantly changing committees.	_____	_____
Subtotal score	_____	_____

TRACKING AND EVALUATING

	YES	NO
1. We divide the annual budget into short-term segments, matching each short-term budget with the anticipated flow of financial resources.	_____	_____
2. Our financial statements include a snapshot of the same short-term periods, as well as information on the year to date.	_____	_____
3. We assign account codes and track actual revenues and expenses by activity.	_____	_____
4. We review actual costs against budget costs on a periodic basis (monthly, quarterly).	_____	_____
5. The treasurer of our association gives a financial report at each monthly meeting.	_____	_____
6. Our association has a process in place to deal promptly with cost deviations from the budget.	_____	_____
7. Each event and activity is evaluated separately to determine if the projected financial and membership objectives were met.	_____	_____
8. The board of directors clearly define who has signing authority.	_____	_____
Subtotal score	_____	_____

ACCOUNTING

	YES	NO
1. Our association uses a double-entry bookkeeping system.	_____	_____
2. We use accrual accounting rather than cash accounting.	_____	_____
3. We record all revenues and expenses.	_____	_____
4. We prepare regular cash flow forecasts.	_____	_____
5. We keep accurate up-to-date membership records.	_____	_____
6. We prepare regular financial statements.	_____	_____
7. We collect and remit GST/HST to benefit from the input tax credits.	_____	_____
8. We file an annual income tax return.	_____	_____
Subtotal score	_____	_____
TOTAL SCORE	_____	_____

Evaluating your financial planning and management efforts

Calculate your total score by counting the “yes” answers in each category and then adding the subtotals. The highest possible score is 48 points.

43-48 Congratulations, you are doing a great job!

37-42 Good effort—keep it up!

31-36 Solid performance, but you need to focus more effort in a few areas.

25-30 You are on the right track, but there is considerable room for improvement.

0-24 There is lots of work ahead of you. This manual provides a good starting point.

CHAPTER ONE

Overview of Financial Management

Financial management is a long-term and ongoing undertaking that takes place within a larger framework of planning and implementation. It is a deliberate approach to planning and carrying out the mission and the objectives of the association.

WHAT ARE THE OBJECTIVES?

There are two basic reasons why associations must engage in sound financial management:

1. To ensure that they are delivering services to their members in a fiscally responsible manner.
2. To ensure that the association remains solvent.

- A **system of recording** and tracking financial events and transactions.
- A **process of assessment** of expenditures against the association’s objectives.
- The application of professional financial advice and expertise, as needed.
- And perhaps most important of all, a good portion of common sense!

WHAT IS INVOLVED?

Effective financial management is based on a commitment to the objectives of the association, and relies on the organizational abilities of those in charge of the association’s affairs. It requires:

WHO IS INVOLVED?

In the broadest sense, everybody in the association is involved in financial management, from the board of directors, to association staff, to members (who are apprised of the association’s financial status through regular reports, and whose input on services and activities has financial implications).

More specifically, financial management is the responsibility of:

- The board of directors who set policies, establish objectives, define goals and approve the budget
- The finance committee and treasurer
- Association committees that make recommendations for specific activities
- The EO who, in conjunction with the board, prepares an annual work plan and budget, and oversees the day-to-day operations of the association, including bookkeeping and the preparation of financial reports for regular review.

BE MORE EFFECTIVE!

- **Financial stability is the underpinning of political strength. A financially stable association has credibility, attracts members, and is far better positioned to deal with external agencies, from municipal governments to the media. A poorly run association cannot represent its members and the industry in a professional and credible manner.**
- **Understand the meaning of financial responsibility and accountability to members. Associations are “stewards” of members’ resources and are accountable to members for managing these resources effectively and transparently.**
- **Leadership requires knowledge about the association’s financial capacity and budgeting options.**
- **It is important to keep board members up to date on the financial aspects of the association through regular reports and data, so they can make informed and considered decisions.**
- **Members should receive regular financial reports and updates—part of the board’s responsibility for demonstrating accountability, transparency and sound financial management.**
- **An annual review of the association’s strategic plan helps to ensure continuity from one year to another.**

The Framework

Financial management is an important element in planning and conducting the activities of a local HBA. Only through a well-planned approach to generating and applying resources will an HBA be able to set priorities and reach its objectives successfully and consistently.

MISSION

The mission statement is the cornerstone of each local HBA. It is a broad and enduring statement of purpose that describes the reason for your association's existence, and is modified only as the result of a review of your association's strategic plan.

The mission of the Canadian Home Builders' Association is to be the voice of the residential construction industry in Canada; to achieve an environment in which our membership can operate profitably; and to promote affordability and choice in housing for all Canadians.

All activities, programs and services offered by your association should relate to, and support, the CHBA's mission. Lack of attention to the mission can easily lead to misguided priorities and result in ineffective use of resources, inadequate delivery of services and, ultimately, dissatisfied members.

OBJECTIVES

The local HBA's mission statement is supported by objectives that guide the direction of the association and help elected

officials and staff to set goals and define activities. Objectives are fairly broad descriptions of intent in more detailed areas.

Association objectives can be divided into two streams of activities:

- Those that deal with the external environment.
Example: To monitor and oppose inappropriate regulation and taxation that adversely affect housing affordability, quality and choice for Canadians.
- Those that deal with internal matters.
Example: To support and develop the Association's leadership capabilities.

Developing and updating the mission statement and objectives is the responsibility of the board of directors as part of the strategic planning process. Typically a strategic plan is updated every three to five years. Ideally, objectives should have a lifespan of at least five years to ensure consistency in delivery of services to members.

In addition, programs and activities that are created in response to certain objectives often need time to mature and grow before they can be deemed a success or failure.

The CHBA *Vision Action Plan* provides a clear example of the kinds of objectives that can be developed to support a mission statement.

Objectives as a Management Tool

Objectives ensure that planning by the board progresses in a timely and orderly fashion. Boards can, and do, get bogged down in lengthy debates over specific activities, including members questioning, “Why are we doing this anyway?” If activities are in keeping with approved objectives, the board can have a focused discussion, and then get on with other issues.

OPERATING PRINCIPLES

Local HBAs need to operate in a business-like manner. Each HBA has what is essentially a client base—that is, its members. It offers a range of services to its members, and its affairs are conducted within an established operating environment. To operate effectively, each local HBA must:

- have adequate revenue
- have a solid base of members
- have sufficient capacity to provide services in a consistent and professional manner
- be seen by its members as providing value for money.

Adhering to these principles allows the association to set priorities and use available resources (human and financial) in the most effective manner possible.

Most of the association’s elected officials come from business backgrounds. Their experience is a valuable asset, and their

expertise can be used to increase the performance of the association. **Keep in mind though, that the association exists to provide services to members, not to generate profit**—a major difference between the enterprises operated by individual members and the association that exists to serve their interests.

This difference becomes extremely important during periods of economic downturn. At a time when members may experience difficulties in their own business, the association must provide even more support and services.

SETTING YOUR GOALS

Once objectives have been set, your association can begin to define goals (or priorities) and determine specific activities attached to each goal. This process is part of a larger exercise of developing a work plan, which is usually a collaborative effort between the EO and elected officers.

- Planning the direction of the association and preparing an annual work plan is part of the EO’s responsibilities. Elected officers play an important role in developing this plan, and rely on the EO to provide them with adequate information to make appropriate decisions, including financial reports. The EO formulates the plan and presents it for review and approval.
- A work plan must be prepared on an annual basis and should be reviewed regularly to ensure that activities are on track. As changes occur, the plan should be amended.

Don't automatically assume that existing programs and services should be kept from one year to another. From time to time, it is exceedingly valuable to examine these activities closely to determine if they are still valid.

Goals must be ranked according to need and demand, and also to the resources available to undertake them. Goals can be short-term or long-term. In the latter case, the activities related to achieving the goals may extend beyond the one-year period of the work plan, and may be dealt with in phases where possible.

BE MORE EFFECTIVE!

- Recognize that the core constituency of your association is made up of new home builders, renovators and developers whose financial well-being is critical to everyone else in the organization.
- In “bad” times, services to members are needed more than ever. Associations must emphasize the delivery of valuable services and activities to help their members through difficult times.
- Always attach activities to every goal—what will your HBA do to achieve a specific goal? Without well-defined activities, you cannot budget properly (you may have to amend or modify activities to fit available resources.)
- Avoid ad hoc decision-making. An established formal process ensures that committees and individual elected officials can make financial commitments on behalf of the association only with the approval of the board.
- Don't allow any individual or small group to monopolize decision-making, because it can result in the control of the entire agenda by a few at the expense of the majority of members.

WORKING WITHIN THE FRAMEWORK

Priorities can be determined and specific activities planned only when your association has a clear understanding of the framework that it works within. Elected officers (and staff) need to answer a number of questions:

What is our mission?

If your association doesn't have a mission statement, make it a priority to develop one as part of a strategic planning session. It is the responsibility of the board of directors to do so. Input from the EO and other senior staff can be encouraged, as appropriate.

What are our objectives?

Examine your association's current objectives. Do they accurately reflect your mission? Do they reinforce your association's position as a professional organization?

What services and activities are we providing currently?

From municipal regulations and approvals processes, to skills shortages, to technological changes and advances, your members consistently face a challenging and demanding business environment. Do your current services and activities meet your members' needs? Fulfill their expectations? Furnish them with the skills and knowledge to do business profitably? Meet your association's objectives?

Are we providing a balanced menu of services and activities?

In order to attract and keep members, and to be perceived by both members and others as credible, it is necessary to provide a selection of services and activities. Do you provide services, programs and/or activities in areas such as business intelligence, government representation, networking and consumer marketing?

What other services and activities should we be offering?

The needs of your members are constantly changing in response to both global and local conditions. Consult with your members from time to time through surveys and focus groups to make sure that your association's services and activities keep up with your members' needs and concerns.

Should we reconsider some of our current services and activities?

It is tempting to maintain certain services because "we have always done things this way, and our members have come to expect it." As the needs of members change over the years, the services and activities of your association must evolve to keep pace with these needs. It is important to encourage innovation by building on tradition rather than stifling it by "let's keep it the way it has always been" thinking.

For example, local HBAs at one time may have believed that their primary mandate was to provide networking opportunities for their members through monthly dinner meetings, golf tournaments and other social events. In today's complex marketplace, social events must share the agenda with other important activities such as municipal liaison and representation to the public.

The Resources

Delivering services and activities to members requires resources. Often the word resources is thought to be synonymous with money, that is, financial resources. However, in many organizations, and in non-profit organizations in particular, the human element is a valuable part of the organization's overall resource base.

HUMAN RESOURCES

The local HBA is a volunteer-driven organization that relies on the commitment of individuals to the mission of the association, and on their willingness to give generously of their time and effort to realize that vision.

It may be no exaggeration to state that the association's single largest asset and greatest resource is the volunteer.

1) The Board of Directors

The primary function of the board is to develop policies and set directions for the association. In other words, board members look at the bigger picture and make decisions, with the advice and assistance of staff where applicable, about both long- and short-term directions.

Committees made up of members (and representatives of the board), with support from staff, deal with specific areas such as finance, technology and membership. Major recommendations made by individual committees are brought to the board of directors for decision and final approval.

Where human resources are scarce, board members are also typically quite involved in carrying out the planned activities.

The makeup of the board of directors is crucial. Individual board member expertise and familiarity with the building industry and association work is part of the key to an effective organization. Seek out individual board members with certain competencies and skills sets, e.g. human resources, accounting, communication, and so on. They must also be committed to the mission of the association and willing to work to achieve the objectives set out by your HBA.

Elected leaders come from the ranks of the membership. A well-defined strategy to encourage and groom members to become future association leaders will go a long way towards ensuring continuity, consistency and financial stability.

2) Members

Traditionally, associations rely heavily on volunteers, not only to serve as members of committees or the board, but also to carry out the activities and services offered by the association.

An informed, involved and enthusiastic membership is a tremendous asset to an HBA and can greatly increase its effectiveness and reach in the community.

A full program of services and activities lays the foundation for the commitment of members to the association. Orientation sessions for new members, ongoing communication and a willingness to “lend an ear” help members to become involved and enthusiastic.

Recruitment and retention of members are ongoing concerns for local HBAs. These activities rely on the efforts of not only elected officials and staff, but also of members. The *Membership Makes a Difference* guide to membership development provides in-depth information about retention and recruitment at the local level, stressing the importance of “quality” members, a strong offering of association services and activities, and ongoing communication with members.

3) Staff

The day-to-day operations of the association are managed by the EO, who ensures consistency in services and activities, and provides continuity from one board of directors to another.

An Executive Officer is an investment and a resource, and should not be considered simply as an expense or part of the overhead. The EO extends the association’s reach, including its capacity to raise the required financial resources to carry on a full program of membership services.

The efforts of the EO should be deployed in a manner that is most beneficial to the association in overall terms. This means balancing the demands on his/her time and energy. Too much time spent on one activity, be it

seeking external sources of revenue or membership recruitment, leads to less spent on other equally important activities. For members, the benefits and the value of membership are the result of a full program of services and activities. The EO must have the time and the resources to provide these on an ongoing basis.

Some HBAs may not have sufficient membership resources to hire an EO and must depend on elected officials and other volunteers. These HBAs should try to attract a qualified person with an interest in, and a commitment to, the industry to take on the role of volunteer EO.

In addition to the EO, local HBAs may hire other staff to fulfill specific functions. Again, this staff should be thought of as a resource rather than just overhead—part of the association’s capacity to provide an attractive and meaningful selection of services.

4) Other Allies and Volunteers

Cooperative ventures with allies and partners in the housing industry extend the capacity of associations to undertake activities, thereby expanding the range of services that can be offered to members. The most successful collaborations with other agencies and organizations tend to be project-specific, where the roles, responsibilities and contributions of each party can be clearly defined.

However, collaboration requires management and coordination. The additional resources gained by enlisting and working with allies and partners must be assessed in relation to the time and effort devoted by association volunteers and/or staff to do so.

FINANCIAL RESOURCES

There are basically two major sources of revenue for local HBAs:

- membership fees
- non-dues sources of revenue, including events, activities and sponsorship.

1) Membership Fees

The fees paid by members are the foundation of a local HBA's budget and should cover all overhead and core services.

Every HBA exists to deliver services to its members. These services are directly linked to the association's strategic priorities, work plans and by-laws, which in turn reflect the collective decisions of the membership. If an HBA depends on non-dues sources of revenue to defray these costs, it risks being unable to provide its members with the expected services in the event that a specific initiative fails to generate revenues as budgeted, or if a sponsor declines to contribute.

Overhead and core services need to be clearly identified so that they can be budgeted for based on membership fees.

Each HBA needs to establish an annual base budget for operating expenses (overhead), without which it is simply not possible to deliver services to members, and for core services and activities.

Overhead includes, but is not necessarily limited to:

- staff salaries
- office rent, utilities
- communication (telephone, Internet, postage)
- office supplies
- meeting expenses.

Core services can best be defined as those services that produce benefits for the entire membership, even if they are not used by every member. Core services are the key services and activities that attract members to join and to retain their membership. They must represent value for money and provide members with a return on their investment in membership.

The size of an association's operation and the scope of its services are closely related to the size of the membership and the fees charged to members. Each HBA needs to define its core service "package" according to its mission and mandate, and then set priorities for specific services and activities to ensure the greatest value possible for members. Typically, core services cover such areas as:

- municipal liaison and political action
- industry promotion activities (home shows, consumer campaigns, media relations, awards programs)
- technical and economic research
- human resources/skills development (workshops, seminars, guidelines)
- information and communication (website, newsletters, contact directory)
- networking (dinner meetings, social events).

Certain services and activities that fall within the core services category can potentially be self-funding or possibly even an additional source of revenue. However, be careful not to become dependent on external funding for the provision of core services. Local HBAs should focus on establishing a full range of basic services and activities based on membership fees, even if the services are modest in nature due to the size of the organization. Resources derived from sponsorship of, or industry/public attendance at, events and activities should be used to enhance each

event and activity or to expand the menu of services—not to ensure that core services are being provided.

At the same time, HBAs must differentiate between those costs that are legitimately part of the association’s budget (and mandate), and those that are not. For instance, the organization and administration of monthly dinner meetings is an integral part of providing basic networking and information services to members, but the cost of the meal itself should be borne by those who attend the meetings.

Additional services are those that are used by a small percentage of the membership only, or that do not further the association’s primary mission and mandate. Charging a fee for additional services can add to bottom line. Association officials and staff can price each service or activity separately as self-funding or revenue-generating undertakings. That way, the cost of the service or activity is borne directly by those who benefit from them, and the success of a particular undertaking can be easily measured and assessed. Revenues from additional services can be used to enhance existing services, to expand the range of services and activities offered or to build up the reserve fund.

Other Considerations When Determining Membership Fees

Local HBA fees vary, depending on an association’s size, services and activities, and the acumen of the association’s financial managers.

When setting local membership fees, and hence determining the cost of the full fee that members pay, local HBAs should carefully consider a number of important issues:

- **The Canadian Home Builders’ Association is one association with three levels.** Each level—local, provincial and national—has a responsibility to support members through a range of services and activities that differ from one level to another, but collectively provide an invaluable contribution to the members’ ability to operate profitably in the housing industry.
- **“Local membership”.** CHBA’s bylaws and policies prohibit the use of local-only membership, where an HBA charges a member a “local fee” only. All members are equal, and all members must pay equally within their membership category (and level where appropriate).

The core constituency is made up of new home builders, renovators and developers who require a full range of services from all levels of the CHBA. Other members depend on the viability of core members. When this core constituency prospers, other members of the industry do as well. Services to the core constituency can be provided only if sound membership fee policies throughout the Association provide a stable financial base.

- **Discounts on local HBA membership fees.** Discounts raise doubts about the value of membership and undermine the financial capacity of the association. Members who join at a discounted fee will often not renew their memberships at the full fee. Local HBAs should not discount membership fees under any circumstances.

- **Incentive programs for new members.**

Efforts to attract members through incentives weaken the association's professional credibility and financial stability. These efforts tend to enjoy short-term success at best, while still resulting in a financial shortfall for the association through their accompanying cost (both in terms of resources and reputation).

- **Incentive programs for recruiters.**

Recognition and appreciation of those who recruit new members are appropriate; financial incentives and remuneration are not. For instance, EOs who get paid a commission for bringing in new members may focus their efforts on membership recruitment at the expense of other services and activities. Likewise, incentives with a significant cash value for member-recruiters, such as vacation trips, tend to create an artificial and short-lived inflation in membership that ultimately undermines ongoing and sustainable recruitment efforts. They also result in financial instability and unpredictability.

Remittal of membership fees

It is important for local HBAs to report new members and remit their fees to the provincial and national offices of the Association as soon as membership applications have been approved. This ensures that new members will receive the full range of services from the provincial and national levels, including being listed on websites and getting news, publications and other valuable member materials.

Membership Turnover

A certain level of membership turnover is unavoidable and is expected each year. An unacceptably high level of turnover results in financial unpredictability for the association and places high demands on those that are engaged in membership recruitment, perhaps to the exclusion of undertaking other activities.

A high turnover rate often indicates an unsatisfactory level of membership services. Measures should be taken to improve membership retention by improving services and recruiting quality members who are committed to the association.

An effective approach to membership development results in a sound balance between retention and recruitment activities. Existing members are the mainstay of your association and should be given first priority. The higher the satisfaction among your existing members, the higher your retention rate, and the more you can take advantage of recruitment for growth. (For more information, see *Membership Makes a Difference: A Guide to Membership Development*.)

Membership Fee Increase

Often there is a natural hesitation to increase membership fees, particularly in difficult economic times. But increases can be justified, if there is a perception of value for money. A professional association requires resources in order to represent its members well, and to offer the range of services that will result in a better operating environment for members. (For further discussion of increasing membership fees, please turn to page 30.)

2) Non-Dues Sources of Revenues

A. Revenue-generating events and activities

Additional revenues can be generated through a number of different activities and events, from home shows, parades of homes and award programs to social events, educational offerings, publications and much more. Discussions of revenue-generating events and activities should include the following considerations:

- **How do you decide which activities to pursue?** Establish criteria and set priorities for revenue-generating events to guide your decision-making. Keep in mind that success is usually linked with the quality rather than the quantity of events. At the same time, however, be aware of the risks of relying too heavily on a single initiative. If it fails, the association may experience significant financial difficulties, particularly if you have invested association resources up-front.

The CHBA has developed a two-level framework for assessing and deciding on non-dues revenue activities. Key guiding principles set out a number of important considerations, including the requirement that proposed revenue-generating activities must be aligned with the core business and mission of the Association. All activities must be compatible with the key principles, and the potential revenue must be carefully estimated. If deemed worth pursuing, a full business plan is developed for review and decision by the board of directors. This process ensures that all potential revenue generators are given full scrutiny and the risks are properly assessed before going ahead. (See Appendix A, Non-Dues Revenue Concept Assessment Process.)

- **What are the actual costs connected with each activity?** Getting an accurate picture of the resources needed to plan and undertake an activity is vital. How many person hours are needed? How many dollars?
- **What is the potential revenue that could be generated? Is an activity worth pursuing when gauged in the light of the required resources (financial and human) to do so?** For instance, organizing an industry luncheon may require weeks of staff and/or volunteer time, plus financial costs for promotion, and the event may only raise \$500. Not only is the revenue out of proportion to the level of effort required for the event, but other, and better, opportunities might have been missed at the same time.
- **What other benefits does the proposed activity offer?** On the other hand, while the revenue potential may be modest, an industry luncheon may improve relations with the municipal government, generate media attention and generally enhance the profile of the association and its members. You need to determine the main benefits you can derive from each event and then decide on the priority of the proposed activities according to your needs and resources.
- **How will the revenues be allocated?** Earmarking the potential revenue upfront for a specific purpose helps to focus the effort; it is also useful in evaluating whether or not to proceed with a particular initiative. However, it is important to ensure that key services and activities are not dependent on the outcome of specific revenue-generating activities.

- **Which potential revenue generators should be offered on a cost-recovery basis as a service to members?** Educational courses, workshops and seminars are potential sources of revenue for the association. On the other hand, you may wish to offer these on a cost-recovery only basis, because they are part of your core service agenda. Many associations have established a two-price system, with a cost-recovery price for members and a higher price for non-members. This approach stresses the value of membership and provides an excellent member recruitment tool.
- **On the other hand, are you allowing industry partners to enjoy a high profile in association events without a reasonable contribution?** It is necessary to strike a balance between the contribution of sponsors/partners and the exposure enjoyed by them.
- **Are you presenting proposed activities in a business-like fashion?** Participation in association activities is an investment decision. Sponsors/partners need facts, figures and realistic projections in order to make their decisions, and the cost of participation has to be reasonable so they can justify the investment.

B. Sponsorship

The contributions and participation by other parties can greatly extend your HBA's reach and enhance its effectiveness, and there are many examples of successful sponsor and partner activities in local HBAs. Considerations for successfully incorporating sponsorship/partnership into your work plan include the following:

- **Are you approaching a full range of potential sponsors, or are you relying on the "tried and true" only?** Many HBAs have a small list of established sponsors/partners that they approach over and over again. This can lead to sponsor burnout as well as missed opportunities to enlarge the pool of sponsors/partners.
- **Are you offering your potential sponsors/partners valuable business opportunities?** The decision to participate in association undertakings is based on business principles. Sponsors/partners are looking for exposure, profile, a forum to promote their firms and organizations and, ultimately, opportunities to sell their services and products.
- **Is your HBA taking full advantage of opportunities for sponsorship?** Are you asking sponsors to get involved in worthwhile activities that provide a real benefit for as many members as possible? Are you reaching out to all potential partners? Sometimes the reason possible sponsors are not involved is simply that no one asked them.
- **Do you provide a results report at the completion of an activity?** Sponsors/partners need information (attendance numbers, sales numbers, media coverage, general comments, for instance) to help them to assess the validity of their investment and to determine their continued involvement.
- **Do sponsors/partners receive adequate acknowledgment and recognition?** A thank-you letter, inclusion in a dinner-meeting speech or mention in the association newsletter goes a long way in meeting sponsors'/partners' need for recognition.

BE MORE EFFECTIVE!

- Some HBAs cannot afford to hire staff and must therefore put their financial affairs in the hands of volunteers. The elected leadership needs to ensure that “financial volunteers” understand and are committed to the association’s objectives, and that they also have some knowledge of basic accounting practices.
- Always follow up promptly with all volunteers, otherwise you risk losing their enthusiasm and willingness to participate.
- Balance exuberant enthusiasm for all events with a healthy dose of realism. Overly optimistic attitudes may neglect to recognize the potential downside of events, or to provide a realistic assessment of their true costs and potential results.
- Address causes rather than symptoms. For instance, the solution to losing too many members lies in understanding why they leave and addressing the reasons rather than simply attempting to bring in new members.
- Don’t keep membership fees low through “savings” measures. It reduces the value of the services that members receive, which in turn results in a loss of some members while short-changing those that remain in the association.
- Also, be cautious about seeking “creative” ways to solve financial problems, such as incentives for recruiting or for joining the association. Such short-term responses to financial crises (which involve further financial expenditures) too often backfire, leaving the organization in worse financial shape.
- Always remember that a discounted fee of any description involves real expenditures for the association.
- Staff resources help associations to lever contributions from external sources. The EO enables HBAs to collaborate with other parties and enlist support for a wide range of cooperative ventures, thereby providing valuable services to members.

Planning and Budgeting

Financial management is the mechanism by which associations ensure that their work plan is realistic and can be implemented. The end point of planning and budgeting is the application of resources to your goals.

THE WORK PLAN

The work plan is developed as a joint effort between the EO and the board of directors, with input from association committees. A work plan must be prepared on an annual basis and reviewed regularly, preferably on a quarterly basis.

With your mission and objectives in mind, begin by establishing goals for the upcoming period and attaching specific events or programs to these goals. This involves:

- identifying the activities that will achieve your goals
- defining the specific tasks involved in each activity
- defining the time frames involved.

You are now ready to begin the budgeting process!

THE BUDGETING PROCESS

A budget is a plan of action, expressed in monetary terms, that represents your HBA's priorities and work plan for the coming months or year(s). Consistent and effective use of budgets helps to keep the association on track and to avoid crisis management. The budget serves two main functions:

- recording the realistic goals of the association in monetary terms
- providing a tool to monitor financial activities throughout the year.

It is important to remember that a budget is a plan, and plans can change. Budgets are living documents. They support the actions of the association, and they can and should be adapted to any changes that may take place during the period of time for which they are prepared.

Who Prepares the Budget?

Developing a budget involves a number of people in the association.

The Board of Directors

The board is ultimately responsible for the budget. The board provides directions and guidance, and approves the budget once it has been prepared. In addition, budgetary items will have policy implications. In the case of a shortfall of revenues, for instance, certain activities and services may have to be cut back. This is a policy decision rather than a simple financial one, and the board must be involved in making it.

The Finance Committee

The role of the finance committee (or a special budget committee) is to oversee the development of the budget, and to satisfy itself that the budget is sound before it goes to the board for approval. The treasurer or the chair of the committee will usually make the formal presentation to the board.

Other Association Committees

If your HBA is involved in a large number of activities, you can avoid the problem of an unwieldy budget by developing a number of separate sub-budgets. These budgets can be prepared by the EO in collaboration with various association committees as appropriate. For instance, the home show committee can prepare a separate budget for the home show. The information from each sub-budget can be condensed and entered into one main budget that is the blueprint for *all* your actions. All budgets, including sub-budgets, must be reported back to the finance committee and the board for review and approval.

The Executive Officer and Other Staff

The responsibility of compiling projected and actual figures, as well as the actual preparation of the budget, falls to the EO and other staff.

What Tools Do You Use?

- The previous year's budget
- The previous year's actual expenses and revenues
- Worksheets with expenses grouped by major functions
- Descriptions of expected changes in services
- General economic indicators, e.g. inflation rate
- Local economic indicators and their expected effect on membership, sponsorship, and so on
- Specific economic considerations, e.g. lease renewal.

General Approaches to Budgeting

In theory, two different approaches can be used to prepare the association's budget.

- One approach relies on the previous year's budget figures, which are modified to match projected variations in revenue or expenses for the coming year.
- Another method involves starting from scratch each year—this is called **zero-based budgeting**.

ROLES AND INFORMATION NEEDS

<u>Group</u>	<u>Role</u>	<u>Information Needs</u>
Executive Officer and Staff	Compilation and Recommendations	Very detailed
Finance Committee	Review and Recommendations	↓ Less detailed
Executive Committee	Review and Recommendations	
Board of Directors	Review and Approval	

Each approach has both advantages and disadvantages. The first allows for a faster budgeting process, but may preclude an in-depth and valuable scrutiny of the association's activities. Zero-based budgeting, on the other hand, ensures that this evaluation procedure takes place, but it can mean a lengthy process. For instance, having developed an ideal menu of services, programs and activities, you may discover that you need to double membership fees to be able to deliver it. You may therefore need to go through a reconciliation process to come up with a more suitable balance between revenue and expenses.

In practice, most HBAs will opt for the approach that makes the most sense to their particular circumstances. New HBAs must by necessity begin with zero-based budgeting, defining basic services and desirable activities, determining fees, and adjusting and readjusting services and activities until a balance has been achieved. More established HBAs have a clearly defined package of services and know the costs attached, and can therefore begin preparing one year's budget based on the experiences of previous years.

THE BUDGETING PROCESS - Step One

Estimate the Cost of Each Activity in Your Work Plan

Include all fixed costs in the budget. Also referred to as overhead, these costs involve those expenditures that are directly related to the operation of the association, including rent, utilities, salaries and benefits, equipment purchase and maintenance, telephone, cleaning, insurance, printing and postage.

Costs related to specific services, programs and activities are sometimes called **variable costs**.

For **continuing activities**, the starting point is the previous year's figures. Do not automatically assume that this year's costs will remain the same, and do not simply add a certain percentage for inflation. Rather, evaluate each cost to determine whether it should remain the same, should be increased or if perhaps it can be reduced. Also decide if you received full value for money spent. If not, you may want to look around for new suppliers, products, venues and so on, as relevant.

For **new activities**, provide your best estimate. Be realistic and all-inclusive. Break activities down into enough detail so you can clearly understand everything involved in developing and delivering them and the impact on the cost.

It is important that all expenditures are accounted for in one or another category.

You may have to make discretionary decisions at times where an expenditure belongs. For instance, postage for membership mail-outs can either be part of the overhead (fixed cost) or be accounted for as a variable cost related to the delivery of membership communication as a specific service. At the same time, account for each expenditure only once—the crucial thing is to be consistent.

THE BUDGETING PROCESS - Step Two

Estimate the Expected Revenue of the Organization

Be cautious when projecting revenue for the coming year—don't simply assume that your revenue will remain the same as last year. Overly optimistic estimates can lead to financial disaster. Instead, examine carefully each source of revenue and evaluate the potential for equaling (or exceeding) last year's income.

Membership Fees

Forecast membership figures realistically, based on past and current trends. What percentage of members do you expect to retain? How many new members will you recruit? How many did you recruit last year? And the year before that? What are the local economic conditions? Any significant changes in the local housing market that might influence your membership figures?

Revenue-Generating Events

Examine the performance of your existing events and activities over the past couple of years. Any changes or trends that may affect your projected revenue this year? For instance, is attendance at home shows going up or down, or staying relatively stable? Can you reasonably expect to increase advertising in your newsletter or membership directory?

Sponsorship and Cooperative Events

Previous year's figures are of limited use unless they are accompanied by an evaluation of the particular activities and events. Were your sponsors satisfied with the results? Are they long-term participants with your association, and do they have a proven loyalty to your activities? Did they receive an adequate "bang for their buck"? Are they likely to continue to support the association at their current level? Have they expressed an interest in becoming more involved and providing additional support?

In-Kind Contributions

For planning and budgeting purposes, in-kind contributions should be counted as revenues only if they have also been included as expenditures. For example, the donation of a banquet room in the local hotel for a consumer seminar for new home buyers should show up as revenue only if facility

rental has been listed as an expenditure under marketing initiatives. Likewise, a reduction in advertising costs from your local media is only revenue if you have listed the full price as an expenditure.

THE BUDGETING PROCESS - Step Three

Compare the Total Expected Income to the Estimated Expenses

Your projected revenues may initially fall short of your expenditures, particularly if you are planning to expand your offerings or enhance your operational capacity.

Budgeting is a balancing act between that which is realistic and that which is not, and between what is achievable and what is not. You will have to exercise sound judgment in reconciling revenue and expenses. Which activities and services are the most important? Where can costs be reduced? Where can revenues be increased?

The reconciliation, or balancing, process is perhaps the most important part of the budgeting exercise, because once the budget has been set, it is the blueprint for your HBA's actions for the coming year.

As mentioned, a budget is not set in stone—changes can and should be made to it if the situation warrants—but an unrealistic budget sets your HBA off on an uncertain course and could have serious repercussions.

Check your figures again. Are they realistic? Do they take everything into account? Are they conservative? Always err on the side of caution. If you overestimate your income by 10% and underestimate your expenses by another 10%, you will have difficulties correcting the budget once the year is under way.

Also, step back and look at the bigger picture. Does your budget reflect a balanced menu of services, programs and activities that will satisfy your members? Will it allow you to achieve your goals?

THE BUDGETING PROCESS - Step Four

Submit the Final Proposed Budget to the Board for Approval

Once a workable budget has been completed, it must be presented to the board of directors for approval. The presentation itself is important—the aim is not only to secure the approval of the board, but also to secure the firm commitment of board members to the action plan that it represents.

The previous year's budget, along with the actual expenditures and revenues, should be attached to the proposed budget. Where useful in clarifying proposed budget items, the proposed budget should be accompanied by documents or notes describing the underlying assumptions and the reason(s) for these.

An examination of trends, extrapolations from past experiences and an accurate understanding of the current operational environment provide workable and justifiable assumptions. Financial caution dictates that special activities and services are deferred until such time as these assumptions have proven to be correct and the planned-for resources are in fact available.

THE BUDGETING PROCESS - Step Five

Present the Final Budget to Members for Approval

The final step is to present the budget as approved by the board, together with relevant background materials and information, to

members for their approval. This includes the preliminary budget for the following year (see below).

The presentation, and approval by members, takes place at the annual general meeting.

LONGER-TERM BUDGETING

One of the most effective ways to avoid the unexpected and to prevent financial difficulties is to adopt a long-term budget perspective. Ideally, a preliminary budget should be prepared for the year following the one for which the detailed annual budget is prepared.

The purpose of longer-term budgeting is to allow the board to look ahead, not only to anticipate problems, but also to identify goals. It is prudent to make realistic, and even cautious, financial assumptions about the future, rather than to be too optimistic.

RESERVE FUNDS

Associations work with two different types of cash reserves—the operating surplus and the reserve fund. The **operating surplus** provides a cushion for small deviations in the budget, or for one-time purchases and activities such as buying office equipment or renovating the association office. The surplus is the result of careful planning and budgeting that includes conservative estimating and a built-in contingency factor. The operating surplus should be carried over from one year's budget to the next.

The **reserve fund**, on the other hand, is a contingency fund for emergencies only. Local HBAs are advised to build up their reserve funds to cover one full year's operating expenses. For small HBAs with limited funds this may be challenging, but an effort must be made; otherwise, the association

is too vulnerable to deal effectively with emergencies that may arise.

Reserve funds can be increased gradually until the desired balance has been reached. Building a reserve fund of one year's operating expenses may take several years; doing so successfully is largely a matter of carefully balancing short-term needs against the need to set aside reserves as quickly as possible.

Operating surplus funds, over and above a set minimum, can be designated as reserve funds. Interest earned by the reserve fund constitutes additional income and can be earmarked for growth of the fund or for other purposes, as deemed most appropriate, depending on the amount of the reserve fund in place.

BE MORE EFFECTIVE!

- Set firm agendas for the association (short-term and long-term), develop plans and establish budgets to meet them, rather than merely budgeting for survival from year to year.
- The EO should be involved in all budget decisions—their familiarity with all aspects of the association and in-depth knowledge are tremendous assets to the decision-making process.
- Strike a balance between internal and external sources of revenue. If you overestimate or rely too heavily on external sources, your HBA may not be able to provide members with core services when a revenue generator, such as a home show, fails to show a return on investment. This also weakens the association's credibility, both internally and externally.
- Do not look to short-term membership growth as the primary method of improving the financial situation of your association.
- Membership growth is the result of a deliberate decision to use association resources to attract new members, and to provide valuable services and activities to all members.
- Adjust local membership fees as required to be able to continue to deliver services that fulfill members' expectations.
- Do not hesitate to expand your list of regular sponsors. Where possible, create unique opportunities to make sure sponsors get adequate exposure and value for their contributions.
- Take advantage of existing membership initiatives, such as RenoMark™, R-2000 and awards events to promote the value of membership.

Tracking and Evaluating

A plan is only as good as its execution. Regular review of the budget is necessary to ensure that things stay on track. Deviations from the original budget must be caught early; otherwise, they may have severe financial implications for the association. If changes to the work plan or the budget are required, as may happen over time, the full implications of such changes can be more easily understood and dealt with if there is a regular review policy in place.

SHORT-TERM BUDGETS

One of the most effective mechanisms for monitoring the association's progress is to divide the annual budget into suitable short-term segments that can be compared with interim financial statements for the same periods.

It is recommended that HBAs prepare monthly or quarterly budgets and statements of financial position in order to ensure the board of directors has an adequate framework for financial management purposes. Financial reports or updates should be provided regularly to members, as part of the leadership's accountability for its stewardship of the association's financial affairs.

How to Prepare a Short-term Budget

Simply dividing the total budget by twelve or four to arrive at monthly or quarterly sub-budgets can give a skewed impression of the financial situation and produce misleading results. Typically, neither revenues nor expenditures occur in an even flow throughout the year. For instance, membership fees are

due at predictable times. Likewise, expenses such as insurance premiums and taxes will be incurred at specific, known times.

The easiest way of dividing the total budget into meaningful segments is to analyze the actual revenue and expenses for the previous year, and then allocate the current year's budget into twelve or four time periods according to the anticipated flow of financial resources.

The result may be sub-budgets with distinctly different projections in various categories for each period. The important thing is that the sum of each category in these sub-budgets matches the total budget.

Other Advantages of Short-Term Budgets

In addition to the ability to compare projected numbers with actual figures to monitor performance, short-term budgets serve as a control tool as part of **cash flow management** (see below for more information). Using monthly budgets, HBAs can phase in variable expenses according to revenue flow. For example, if an insurance premium or a lump-

sum lease payment is due before membership fees, arrangements may be made to cover these expenditures in staggered payments.

How to Use Short-Term Budgets

Monthly budgets are compared to **statements of financial position** for the same period. These statements (see page 34 for further details) provide a snapshot of the actual financial situation and include information on the year to date, as well as on the particular time period.

The EO and staff play a key role in compiling the relevant information along with preparing explanations for any deviation that has occurred.

How to Deal with Deviations

Not all deviations are indications that the budget is off track. Sometimes they occur as the result of a cash flow management decision, such as paying a sizeable bill earlier than anticipated. Deviations from the original budget can often be readily explained by the EO. In all cases, deviations must be brought to the attention of the HBA executive committee and board, who need to understand the reason for the deviation and its implications for the association.

Both staff and elected officials must be prepared to take action to modify their plans if it becomes apparent that the original budget cannot be met. It is imperative that the board is willing to act quickly and decisively. Budgets often fail, because boards are hesitant to take the required steps to correct a financial problem.

CASH FLOW MANAGEMENT

Management of cash flow goes hand in hand with budgetary control. Failure to consider the impact of the budget on cash resources, and vice versa, can seriously impair an association's ability to deliver services to its members.

The objective of cash flow management is to project the availability of cash funds throughout the year; the result is information on investment or borrowing requirements. When an HBA prepares its annual budget, it must also prepare a cash flow forecast to make sure that funds will be available to meet expenses as they arise. It is important to provide for contingencies and to estimate conservatively and cautiously when forecasting cash flow. In fact, the cash flow forecast may be the single most important financial report for management purposes. (See example of cash flow statement in Appendix B.)

EVALUATION OF ACTIVITIES AND EVENTS

A full review should be conducted at the completion of each activity or event, from workshops to social events, to evaluate what took place, not only in financial terms, but also in terms of reaching the association's goals. A review may include all or some of the following elements:

- Was the event/activity successful as measured by the specific objectives set out for it?
- What revenue did it generate?
- What were the true resource costs to the association (financial and human)?

- Attendance figures or participation?
- Media coverage? How much? Favourable?
- (If involved) were sponsors satisfied?
Given full results report?
- Comments from members? Sponsors?
Consumers? Others?
- Suggestions for changes and
improvement?
- Should the activity/event be retained
or shelved?

SIGNING AUTHORITY

In order to safeguard the association and ensure effective financial control, signing authority must be clearly defined. This responsibility should involve at least two people—both must sign a cheque before it can be issued. In most cases, the EO and the treasurer hold signing authority; others, such as the president, may also be designated.

CHAPTER SIX

Increasing Core Revenues

Most HBAs are consistently looking to increase revenues. As costs go up, revenues have to follow suit to ensure the continued quality of member services. Your HBA may also want to expand the range of services offered and the areas that you are active in, in order to provide greater value to members. The challenges facing your members are significant, and your ability to address the issues that matter most to your members is closely tied to your financial resources.

The two primary methods to increase core revenues are to increase the number of people who pay membership fees, or to increase membership fees.

INCREASING THE MEMBERSHIP

The most important step in increasing your HBA's revenues may well be to boost your efforts to retain existing members and recruit more new members. Ask yourself the following questions:

- Do we have a stable membership?
- If we are losing members, why, and what can we do to retain them?
- Can we increase our membership?
If not, why not?
- Do we offer the kinds of services that members require and expect?

- Do we organize effective membership drives?
- Does our current promotional material explain the benefits of membership in clear and understandable terms?
- Do we have a strategic approach to membership development to maximize the return on our efforts as outlined in CHBA's *Membership Makes A Difference: A Guide to Membership Development?*

INCREASING MEMBERSHIP FEES

Undoubtedly, your HBA will need to address an increase in membership fees at some point. Once fees have been set, some HBAs resist or delay fee hikes in fear of alienating or losing members. However, HBAs need adequate resources in order to serve their members well and to represent them in a professional and effective manner. Experience shows that a carefully planned approach can minimize the negative responses that may accompany a fee increase. In fact, a fee increase can often produce positive results in terms of membership growth, as the association is perceived to be a more effective organization offering a better and broader range of services than before.

Recommendations on handling a fee increase include the following:

- Be open and transparent with members. Tell them how their fees are being used.
 - Stress achievements. Let members know what the association has accomplished on their behalf and how they have benefited.
 - Illustrate how the association's services and activities provide value for members.
 - Demonstrate how the association has tried to be cost-effective. Members must be convinced that the association is managing their fees in a fiscally responsible manner.
- Do not simply blame increases on inflation. Members tend to view this "excuse" as unacceptable. While a valid factor, inflation in itself does not generate sympathetic responses.
 - Emphasize new and proposed services and activities, as approved by members and the board. Point out that increases will be used to enhance the services and activities of the association.
 - Show how HBA resources can lever investment. Through its ability to "ante up", the association can lever investments by partners and sponsors in a wide range of activities. Highlight successful partnerships.
 - Plan for small annual increases rather than large infrequent ones. Large increases, even if they are infrequent, can be perceived as the result of poor financial management. They are also much less palatable than smaller, more frequent ones.
 - Get support from key members. Enlist the assistance of well-informed individuals who are seen as leaders and can generate acceptance by the membership.

Remember that to implement a fee increase successfully, you essentially have to communicate the association's agenda and the value of membership to members as well as the board, all over again. Be prepared to make a thorough presentation of all the important facts and projections. Anticipate objections, and be ready to address them head-on, in a persuasive manner. Only then can you expect a positive reaction.

COST-EFFECTIVENESS

No financial management process is complete without a continuous examination of ways in which current established expenditures can be made more cost-efficient.

There may be ways to improve the bottom line related to operating costs. Careful planning and analysis may reveal opportunities to operate the association more efficiently while providing services more economically to members. Briefly, these cost-reduction opportunities include the following:

- Leasing versus buying equipment
- Bulk purchasing
- Distribution of member information (e-mail, website, mailings)
- Proper bookkeeping.

Larger associations with permanent staff and greater resources should also consider:

- Effective hiring and management of core staff, with a qualified pool of temporary personnel for peak periods
- Effective scheduling and advance bookings for traveling and other similar expenditures.

BE MORE EFFECTIVE!

- **Before forging ahead with large-scale membership campaigns, make sure you have done your homework—that is, developed a membership strategy and determined what resources you have available.**
- **Use proper cash flow management practices to eliminate the unpleasant surprise of an unbalanced budget at year-end and, in extreme cases, deficits that are carried from year to year, digging the hole bigger and deeper.**
- **Demonstrate to your members that membership makes a difference through activities such as educational programs, discounts, group insurance plans and other programs, where they in fact realize financial savings.**
- **On a regular basis, communicate to your members the benefits of belonging to your association, such as improved municipal liaison, increased consumer awareness and better working relationships with the local media.**
- **Make sure that all contracts involving your association are reviewed carefully and signed by formally authorized persons.**

Accounting

Financial planning relies on common sense, sound judgment and the ability to make balanced choices. Financial information management, or accounting, provides the discipline in this process.

Accounting is an accurate “tool” for reporting, managing and evaluating all aspects of your HBA’s financial affairs.

This document cannot provide an in-depth lesson on accounting. What follows is an overview of some of the documents and procedures that your association must be familiar with in order to meet the demands of effective and responsible financial management.

It is highly recommended that elected officers who are most directly involved with the financial affairs of the association, as well as EOs, take the time to become well versed in these concepts. Additional consultation with accounting experts is well worth the expense to help you to set up the accounting system that will work best for your HBA.

An accounting software package is a wise investment that will make the task much easier.

DEFINITION

Accounting is a system of recording and reporting financial information on an organization’s operations. Accounting is often divided into two categories—financial accounting and management accounting.

Financial accounting is the formal process of recording and reporting all financial aspects of the association. This is the information that is audited, used in financial statements and reported to members, governments and other external agencies.

Management accounting focuses on the financial information that is relevant to the future of the association. It is used primarily by the internal management of the association to facilitate decision-making and management. Management accounting information is tailored to the needs of the specific users.

PURPOSE

There are three reasons why associations need accounting:

1. To satisfy the requirements of financial stewardship and accountability for the funds entrusted to the association.
2. To disclose the revenue and expenditures of the association, as well as its financial position and any changes in this position.
3. To provide financial information to facilitate decision-making and budgetary control.

To meet these objectives, HBAs must maintain up-to-date records in a clear and logical format.

AUDIENCES

There are a number of audiences, each of which requires a different level of detailed information:

- Members
- Board of directors
- Committees
- EO and other management staff
- Lending institutions and other organizations with whom the association has a contractual financial relationship
- Sponsors and partners in cooperative ventures
- Canada Revenue Agency.

THE SYSTEM

The **double-entry bookkeeping system** is the most appropriate system for local HBAs for recording financial transactions and events. Each transaction results in at least two entries in the records, and they must always balance.

EOs and others in the association need to become more familiar with accounting systems. The Canadian Society of Association Executives and Canada Revenue agency offer valuable information that will assist you in setting up an effective and simple system.

THE RECORDS

The main document in the double-entry bookkeeping system is the **general ledger** which contains the entries associated with all transactions, both revenue and expenditures. For many small HBAs, this is the only recording document needed to keep track of their financial transactions.

Larger HBAs may find it useful to augment the general ledger with one or more separate documents:

- General journal—a narrative to explain activities that may be out of the ordinary
- Cash receipts journal
- Cash disbursement journal
- Payroll sub-ledger
- Accounts receivable sub-ledger
- Membership fees receivable sub-ledger¹
- Accounts payable sub-ledger.

In a manual accounting system, entries made in any augmentary records, i.e. journals or sub-ledgers, must be transferred to the general ledger, either at the same time or at regular intervals. Accounting software automatically transfers information from one file to another—for instance, an entry in the payroll ledger will be duplicated in the general ledger.

CASH OR ACCRUAL ACCOUNTING

Cash accounting recognizes and records transactions only when cash is involved—when cash is either received or paid out.

By comparison, accrual accounting recognizes and records transactions as they occur, regardless of any actual cash involvement. Transactions are recorded either at the time they occur or in the month they occur, that is, revenues are recorded when earned, whether or not cash is received, and expenses are recorded when the liability is incurred (not later when the bill is finally paid).

Accrual accounting gives a much more accurate picture of an organization's financial status at any given time and is strongly recommended for HBAs.

¹ If membership information is not adequately captured in the general ledger, local HBAs must keep a separate membership record.

For instance, in accrual accounting, the cost of monthly dinners is recorded when incurred, not when the invoice is paid. By contrast, in cash accounting, this entry would appear only when the actual cheque for rental has been remitted, thereby creating an inaccurate picture of the association's liabilities. Should the invoice be delayed for any reason, this liability can in theory be carried over from one fiscal year to another, resulting in a false sense of the association's financial position at year-end. This could seriously affect the following year's efforts to provide quality services and activities in a fiscally responsible manner.

Accrual accounting is also required if an HBA is trying to measure the cost of any product or service. It is impossible to know what a particular activity will cost during the year if unpaid bills have not been included as expenses in the financial reports. The same is true when services have been provided for a fee, but the fee has not been billed or collected.

Accrual accounting is also essential for evaluating the financial results of a particular service or activity, or making comparisons between the annual budget and actual revenue and expenses to assess performance and effectiveness of the management. Without including unpaid bills or uncollected income, such a comparison is both misleading and useless.

FINANCIAL REPORTS

There are several principal financial documents that local HBAs must prepare on a regular basis to fulfill their obligations for compliance, accountability and management purposes.

Statement of Financial Position

This statement represents the financial position of the association at a certain point in time. It is simply a listing of the assets, liabilities, equity and net assets of the association on a particular date. (See sample in Appendix B.)

- Assets
 - cash (currency and cheques)
 - short-term investments (easily convertible into cash, usually within one year)
 - accounts receivable (fees and other revenues, less discounting for bad debts and costs associated with collection)
 - prepaid expenses (insurance, taxes, rent, office supplies and so on)
 - fixed assets (land, buildings, equipment, etc., expected to benefit the association for years)
 - investments (long-term investments can also be classified as fixed assets)
- Liabilities (current and long-term)
 - accounts payable
 - accrued liabilities (obligations that were incurred in the previous year, but will be paid off in the near future, such as payroll at year-end)
- Net assets (accumulated surplus)
 - reserves
 - other

The components in the statement should balance, that is, **assets should equal liabilities and net assets.**

Intended for all audiences, the Statement of Financial Position is used, for instance, in the annual report, presentations to lenders and

tax returns. Internally, it can be used with the Statement of Operations to give staff and elected officers a clear picture of the association's financial condition.

The Statement of Financial Position should be prepared on a monthly or quarterly basis, depending on the frequency of other reports such as the Statement of Operations.

Statement of Operations

This statement compares the association's revenues with its expenditures for a specific period. The difference between the two represents the surplus or deficit for the period. (See sample in Appendix B.)

One of the primary uses of the Statement of Operations is the comparison between the projected revenues and expenditures, as expressed in the budget, and the actual financial results. To maximize its usefulness, the Statement of Operations should be prepared for the same period as the sub-budgets (monthly or quarterly) and it should include statements of the year's revenues and expenditures to date. A separate category for variances (over or under budget) for the specific period will further increase its utility and value to board members. An explanation of the variance(s) should accompany the statement.

In its simplest format, the Statement of Operations usually begins with the revenue generated from fees paid by members and revenue from other sources. The next section lists the operating expenses divided into general and administrative expenses. The total operating expense is then subtracted from the gross revenues to show the net revenue or loss for the period covered by the statement.

TAXATION

There are a number of taxation issues related to HBAs, including provincial sales tax, GST/HST, payroll deductions, income tax and property taxes.

1) Provincial Sales Tax

All Canadian provinces (except Alberta) levy a retail sales tax on the purchasers of tangible property and certain services (for instance, admission fees). By law, "vendors" are required to obtain a permit to sell taxable property or provide taxable services. They must also collect the tax from the purchaser.

In some instances, non-profit organizations, as registered under the federal Income Tax Act, are relieved of the obligation to collect provincial retail sales tax. For example, prepared foods can usually be sold without sales tax at fundraising events, provided these events are not held on a regularly scheduled basis.

Local HBAs should contact provincial tax authorities for more information.

2) GST/HST

Under the federal government's *Goods and Services Tax Act*, GST is levied on most goods and services sold in Canada. Harmonized Sales Tax, or HST, is levied in New Brunswick, Nova Scotia and Newfoundland and Labrador.

Non-profit organizations with more than \$30,000 in sales of taxable goods and services in four previous calendar quarters must register for, collect and remit GST/HST. Registration for non-profit organizations with a lesser sales volume is voluntary.

It is advantageous for all HBAs to register and collect GST/HST. Registered HBAs can claim input tax credits for the GST/HST that they pay on purchases used to provide goods and services to their members. Collecting GST/HST on membership fees does not mean an increase in membership fees—as businesses, members in turn receive an input tax credit on the GST/HST portion of the fees.

Obligations as a registrant include collecting GST/HST, keeping records, filing GST/HST returns and remitting any net tax payable. Returns must be filed on a regular basis, even if the association does not have to remit any funds or is not entitled to receive a refund in a particular reporting period.

There are a number of GST/HST rules and regulations that could have an impact on the association. Contact a Canada Revenue Agency district office for more information.

3) Payroll Deductions

HBAs with paid staff are required to maintain a payroll and withhold certain deductions at source on behalf of the government:

- Personal income taxes
- Canada Pension Plan contributions
- Employment Insurance contributions.

The Canada Revenue Agency provides printed and online information to assist employers in calculating the required deductions at source.

These deductions must be submitted on a periodic basis, along with the association's required contributions. By the end of February each year, a T4 Summary must be prepared, reconciling the required deductions and remittances made to the Canada Revenue Agency for the preceding year.

In addition, HBAs in certain provinces may also be required to pay Employer Health Tax periodically, based on gross remuneration paid to employees.

4) Income Tax

All incorporated organizations, or those set up as trusts, have an obligation to file an annual tax return. (See Incorporation, page 37)

A provision in the *Income Tax Act* imposes reporting requirements for non-profit organizations—both incorporated and unincorporated—with an income of more than \$10,000 from dividends, interest, royalties, or rentals during their fiscal period, or with assets in excess of \$200,000 at the end of the preceding fiscal period. This provision stipulates that an “Information Return” must be filed within six months after the end of the fiscal year.

Incorporated HBAs must file an annual T2 Federal Corporation Income Tax Return and the appropriate provincial income tax return, if applicable.

5) Property Taxes

All real property is subject to taxation by the municipality that it is situated in, unless specifically exempted. Real property may be taxed in two ways:

- A business tax is levied on the occupant (if the property is used for business purposes)
- A general property tax is levied on the owner of the property.

Exemptions may be provided for the business tax portion of property taxes, if the HBA can demonstrate that its predominant purpose is non-commercial and that the property is not occupied in connection with a business.

Typically, HBAs will not qualify for an exemption on the general property tax. However, requirements pertaining to exemptions vary from one municipality to another. HBAs that own real property should contact their local assessment offices for information on eligibility.

BE MORE EFFECTIVE!

- Keep up-to-date membership records.
- Arrange for annual independent audits and present the audited statements to the board of directors and to members at the annual general meeting.

CHAPTER EIGHT

Additional Considerations

INCORPORATION

The main purpose of incorporation is to make the association a legal entity and protect the individuals that make up the organization in the eventuality of a lawsuit. The personal level of legal exposure, particularly faced by the board of directors, who sign contracts, publish statements, host public events and promote members on behalf of the association, is significant. As an association becomes more active, the risk of litigation grows.

An unincorporated association is a collection of individuals and has no legal identity. Directors, staff and even members can be sued personally for any contracts, debts or

damages incurred on behalf of the association. In fact, a director or member could face a lawsuit for something done by other people in the association without their knowledge.

On the other hand, incorporated associations are separate and distinct legal entities. If sued, the lawsuit is against the corporation, not its individual members, and possible damages and costs are borne by the corporation. Incorporation also allows an association to take legal action against somebody else much more easily, with less paperwork and more credibility.

In addition, incorporation adds to the “professional image” of an association. Members feel more comfortable knowing that the

association has a legal standing apart from its individual members. Third parties are more likely to deal with an association knowing that it adheres to the principles of risk-management. For instance, many insurers are reluctant to provide directors/officers liability insurance to unincorporated associations.

Being incorporated is also consistent with the principles that the association stands for—responsible management and professionalism.

To become incorporated, HBAs must apply for a Letters Patent (or Articles of Incorporation) from their provincial/territorial government.

After obtaining a Letters Patent, the association must adopt by-laws and establish a meeting process, including the minutes and record book. Ongoing responsibilities include filing government documents, holding annual meetings, preparing annual reports and appointing auditors.

INSURANCE

In the business environment, insurance is a necessary form of protection against major financial losses due to natural disasters, theft, lawsuits and so on.

By the nature of their activities, associations are vulnerable in a number of different ways. A carefully considered insurance plan can significantly reduce the risks to associations, as well as to individual elected officials. The following types of coverage may be considered:

- **General Insurance.** Protects against damage to owned and leased property and equipment.
- **Crime Insurance.** Protects against theft and fraud.

- **Liability Insurance.** Usually protects against claims against the association for bodily injury and property damage suffered by third parties; this should include special event insurance. Directors' and Officers' Liability Insurance may be part of this program or it may be purchased separately. The CHBA offers a Group Directors' and Officers' Liability Insurance Program.
- **Employee Group Insurance.** Commonly covers (in full or in part) health care, disability income and death benefits.

Before making decisions on insurance programs, it is advisable for HBA executives to consult with other associations on the types of policies that are most useful. Get at least three estimates from different insurance companies, and ensure that their representatives have a clear picture of your organization and its needs before presenting you with option packages.

COMMUNICATION WITH MEMBERS

An important element in financial management is communication with members to let them know how their fees are being used. Associations exist to provide services to members, who pay a fee to receive these services. Ongoing communication with members is an integral part of ensuring that they are aware of the efforts their association is undertaking on their behalf, and the costs associated with these efforts.

Annual reports and financial statements convey information on the association's financial situation, but are not enough to give members a well-rounded impression of the value of membership. In addition, use your website, newsletters, magazines and special bulletins to tell members what the association is accomplishing on their behalf, and how their fees help to cover the cost.

Appendix A

NON-DUES REVENUE CONCEPT ASSESSMENT PROCESS

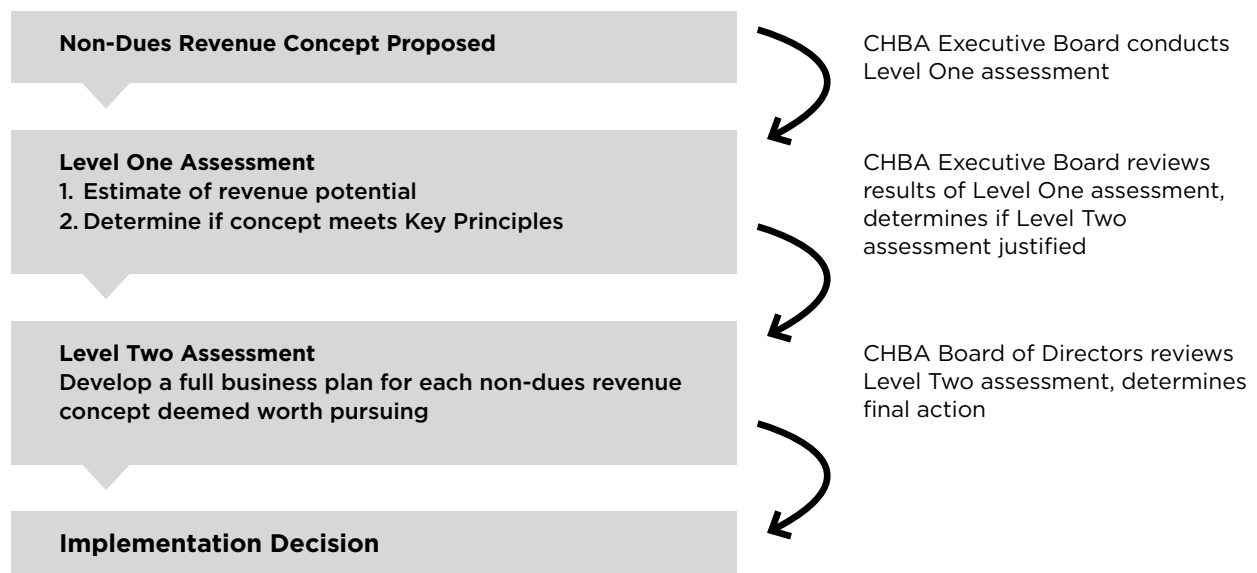
Excerpted from the CHBA's Non-Dues Revenue Report, prepared by The Governance Network, 2004

10 KEY PRINCIPLES

Each principle needs to be carefully considered when taking decisions about proposed non-dues revenue activity.

- Membership fees must cover core operating costs and be the source of funds for operations and overhead of the association.
- Non-dues sources of revenue should be used for additional services over and above the core business of the association.
- Individual or collective revenue-generating activities must not detract from the CHBA's core mission.
- The association's independence and credibility must not be undermined.
- Non-dues revenue activities must be within the legislative framework of the CHBA in terms of its status as a non-profit organization.
- Opportunities must be sustainable.
- Regard must be taken to ensure that non-fee revenue-generating activities pursued nationally will not compete with provincial and local entrepreneurial initiatives.
- Potential benefits and risks associated with each non-dues revenue generation idea must be clearly understood.
- Engagement in the pursuit of non-dues revenue must not diminish or detract from the focus on the important issues that CHBA members wish to be addressed.
- Alignment between non-dues revenue and the provision of a service to members is essential, and it must be assured that non-dues revenue adds to the services already received by members.

A TWO-TIERED DECISION-MAKING FRAMEWORK



LEVEL ONE ASSESSMENT

If the revenue potential is promising in light of the time and financial costs AND the answers are “Yes” to the “principle questions”, the non-dues revenue idea should be pursued further and a business plan developed. A status report should be provided to the person that submitted the idea. If the non-dues revenue idea does not pass the Level One Assessment, a report should be developed by the Executive Board for the person or association that submitted the idea explaining the rationale for the decision.

LEVEL ONE ASSESSMENT

A. Provide a brief description of the non-dues revenue idea:

1. Name and description of the activity: _____
2. Gross revenue potential: _____
3. Estimated start-up costs/investment requirements: _____
4. Estimated staff time: _____
5. Estimated volunteer time: _____
6. Who specifically will be doing the work: _____
7. Potential opportunity costs: _____
8. Estimated operating expenses: _____
9. Experience with this type of activity: _____
10. Other: _____

B. Assessment:

Indicate whether or not the following principles apply to the non-dues revenue idea:

Principle	YES	NO
1. Fits within the CHBA’s core mission	_____	_____
2. Does not undermine the Association’s independence and credibility	_____	_____
3. Is within the legislative framework of the CHBA in terms of its status as a non-profit organization	_____	_____
4. Is sustainable	_____	_____
5. Does not compete with provincial and local entrepreneurial initiatives	_____	_____
6. Appears to have potential benefits	_____	_____
7. Appears to bring minimal risks	_____	_____
8. Adds to the services already received by members	_____	_____

LEVEL TWO ASSESSMENT

The business plan template was designed to help avoid the risk of launching an idea without an in-depth understanding of the implications. It requires a detailed analysis of financial implications, which are arguably the most important components of the business plan. It was designed to be as simple as possible.

A business plan should be developed for each non-dues revenue idea deemed worth pursuing in the Level One assessment process. For each potentially viable non-dues revenue idea, sections 1 to 4 should be completed in the business plan template. The Executive Board should be responsible for the Business Plan development. Business Plans should then be submitted to the Board for decision. Once a decision has been made, a status report should be provided to the person or association that submitted the idea.

LEVEL TWO ASSESSMENT—BUSINESS PLAN TEMPLATE

1. Description of non-dues revenue idea, including:

- a. Explain how the idea enhances member services (What need does it fulfil?)
- b. Identify the key steps required to carry out the activity (What is involved?)
- c. Clarify assumptions

2. Analysis of risk and sustainability:

- a. Identify the strengths, weaknesses, opportunities and threats associated with the idea
- b. Demonstrate how this idea will be sustained over time
- c. Quantify staff and volunteer time required and identify any trade-offs (opportunity costs)

3. Marketing plan and analysis:

- a. Outline market research required
- b. Define the market niche
- c. Identify existing or potential competitors
- d. Describe customers and explain why they would pay for the service or product
- e. Outline the promotional strategy

4. Financial plan and analysis:

- a. Quantify costs: start-up, promotion expenses, financing required, etc.
- b. Calculate the return on investment (ROI) and set target
- c. Specify sales or activity level needed to earn this return?
- d. Identify the break-even position above which net income start to be realized
- e. Develop a cash flow projection including revenue and expenses for each of the next 5 years
- f. Establish a rigorous monitoring and reporting process

Appendix B

EXAMPLES

Cash Flow Statement
Statement of Financial Position
Statement of Operations

(Name of Local HBA) STATEMENT OF FINANCIAL POSITION As At Day/Month/Year

	(This year)	(Last year)
ASSETS	XXX	XXX
Cash & Investments	XXX	XXX
Accounts Receivable	XXX	XXX
Prepaid Expenses	XXX	XXX
Other	XXX	XXX
TOTAL CURRENT ASSETS	XXX	XXX
FIXED ASSETS		
Office Equipment	XXX	XXX
Less accumulated amortization	XXX	XXX
TOTAL FIXED ASSETS	XXX	XXX
TOTAL ASSETS	XXX	XXX
LIABILITIES		
Accounts payable	XXX	XXX
Other	XXX	XXX
TOTAL LIABILITIES	XXX	XXX
NET ASSETS		
Unrestricted (surplus)	XXX	XXX
TOTAL LIABILITIES AND NET ASSETS	XXX	XXX

(Name of Local HBA) STATEMENT OF OPERATIONS for the Year Ended Day/Month/Year

	This Year	Last Year	This Year	%
REVENUES	Actual	Actual	Budget	Of Budget
Local membership fees	XXX	XXX	XXX	XXX
Association activities	XXX	XXX	XXX	XXX
Special events and projects	XXX	XXX	XXX	XXX
Sponsorships	XXX	XXX	XXX	XXX
Miscellaneous	XXX	XXX	XXX	XXX
EXPENSES	XXX	XXX	XXX	XXX
Salaries and benefits	XXX	XXX	XXX	XXX
Association activities	XXX	XXX	XXX	XXX
Special events and projects	XXX	XXX	XXX	XXX
Rent and maintenance	XXX	XXX	XXX	XXX
Meetings and travel	XXX	XXX	XXX	XXX
Promotion and advertising	XXX	XXX	XXX	XXX
Office (supplies, telephone, Internet)	XXX	XXX	XXX	XXX
Bank charges	XXX	XXX	XXX	XXX
Insurance	XXX	XXX	XXX	XXX
Amortization	XXX	XXX	XXX	XXX
Meetings	XXX	XXX	XXX	XXX
Miscellaneous	XXX	XXX	XXX	XXX
EXCESS OF REVENUE OVER EXPENSES	XXX	XXX	XXX	XXX
UNRESTRICTED ASSETS, Beginning of Year	XXX	XXX	XXX	XXX
UNRESTRICTED ASSETS, End of Year	XXX	XXX	XXX	XXX

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