



New York State West Youth Soccer Association, Inc. Financial Philosophy

FINANCIAL PHILOSOPHY (NEW 8/2007)

Introduction and Background

NYSW will continue to face financial challenges...new programs, geographically challenged and potential of dwindling players due to the proliferation of other sports. With these challenges it became evident to NYSW Board of Directors that we needed to capture all the GREAT thinking and ideas as we solved these dilemmas into one document – our Financial Philosophy. The guiding principals to help us evaluate, manage and oversee finances of the organization.

This document is intended to be an executive summary of work taken on by the Treasurer and will serve as a basis for which we will ask the NYSW board approval to move our Financial Philosophy and related policies forward.

The intent of this process was to:

- Align who we are as an organization (primary aim and cores values) with how we allocate our resources in serving our constituents.
- Identify responsibilities of staff and volunteer leadership, in terms of oversight management of our fiscal affairs.

The wisdom and dedication of the NYSW leadership, including current/past board members and finance committees as well as staff, has provided a solid foundation for which we were able to accomplish this very important task. While the ground work has been laid, we recognize that as we begin to live and breathe our financial philosophy, new information will become evident that will add/enhance to the building blocks set forth in this communication. Said another way, the foundation work is complete and it's time to put our plan into action.

Visioning Statements

The following five statements (combined) represent the core of our Financial Philosophy and how we look at resource allocations in the association:

- Financial resources exist to further the vision of the association and provide value to the members. They ensure the future viability of the association and will enable it to remain relevant and viable.
- All financial decisions will be filtered through and must support the core ideology and values of the association.
- We will strive for financial strength and will not spend the last dollar of the association. Financial strength will enable the association to weather future financial storms while continuing to deliver member value.
- Our systems and processes will be clear and responsive to the needs of the association, yet we realize that we live in a world that constantly changes and therefore must embrace new thinking relevant and adaptable to these changes.



New York State West Youth Soccer Association, Inc. Financial Philosophy

- Having a sound financial philosophy will enable NYSW to fulfill its mission to be the community.

Five Primary Strategies (supporting our vision statements)

These strategies support our vision and provide a basis for day to day decision making at NYSW and preparation of annual budgets – they get to the heart of the challenges non-profits face in both management and oversight of finances.

The five primary strategies are:

- Inclusion of an Opportunity Fund in each annual budget to fund unforeseen opportunities
- Definition and Use of Excess Operating Funds
- Use of Financial Strength Measurements (Net Assets and Liquid Asset Ratio)
- Definition and Hierarchy of Reserves: Emergency / Working Capital and Organizational
- Definition of Investment

In examining each strategy the committee agreed to address the following in our efforts to gain clarity and understanding for application at NYSW:

- Describe and define
- Calculation methodologies (financial measurement)
- Controls for managing and monitoring
- Policy statement for each strategy

Please note the following summary represent the highlights and does not delve into the details of each strategy. While tactics have been discussed at the finance level, detailed tactics will unfold as each strategy is implemented.

Strategy #1 - The Opportunity Fund

The Opportunity Fund is defined as resources set aside in the operational budget to finance unknowns that inevitably occur during the course of the year. The items we are referring to here are NOT known longer term priorities waiting to be financed or significant investment to pursue. They represent challenges/opportunities that simply arrive each year, cannot be planned for, are out of our control, and represent something we need to act on quickly. A perfect example of the need/use of this fund occurred past year when expected revenues were not realized due to an act of God. This fund is not intended to simply fund budget shortfalls.

Calculation of this fund is recommended to be a minimum 1.5% of annual operating revenues or \$20,000, whichever is greater.

Controls over this fund will be limited to periodic reporting of any negative budget variances (to the Board). No special restrictions are placed on the Treasurer to request approval. If appropriate and given the nature of the funding need, the Treasurer may direct office staff to prepare a proposal for his/her consideration.



New York State West Youth Soccer Association, Inc. Financial Philosophy

Policy Statement: The NYSW Board of Directors supports the implementation and use of an annual Opportunity Fund to finance unforeseen issues that arise during the year. At the presentation and adoption of the annual budget, there shall be no plans for the specific use of these funds. The Treasurer will have oversight and responsibility to ensure its use aligns with current priorities and values of the organization. The Treasurer will ensure the Fund is fully funded each year and included in the fiscal operating budget of the organization. It is not mandatory these funds be depleted each fiscal year.

Strategy #2 - Excess Operating Funds and Use of Excess Funds

Excess Operating Funds are defined simply as NYSW's bottom line POSITIVE budget variance expected to be reached by fiscal year-end. Our budget approach at NYSW is fairly conservative from a revenue growth perspective, and, given this approach, very few new initiatives can be started mid-stream, primarily because we are bound by the constraints of a traditional budget process. Therefore, we need a procedure that would allow staff to pursue new initiatives/projects that could **not** be financed thru the normal operating budget of NYSW, but could be financed in middle of a "good operating year".

The calculation of Excess Operating Funds is simply the net favorable operating budget position that is expected at the end of a given year. The amount NYSW is committed to retain in reserves is 75% of Excess Operating Funds, while the amount NYSW will commit to pursue new initiatives is 25% of Excess Operating Funds.

Controls in place would include a proposal/recommendation (from Program Manager) to Treasurer followed by an evaluation of current state of financial condition. Recommendation would then be made from the Treasurer to the Board. Included in each proposal will be a process to evaluate success and accountability of project.

Policy Statement: The NYSW Board of Directors supports the implementation of a procedure to allow Program Managers access to Excess Operating Funds during a fiscal year given the organizations financial condition has been evaluated by the Treasurer. The Treasurer has the responsibility to ensure its use aligns with current priorities and values of the organization. Excess funds will be limited to 25% of projected favorable operating results expected at fiscal year-end.

Strategy #3 – Financial Strength Measurements

One of NYSW's key strategic priorities is to be in a position of financial strength. The **financial strength** of the organization will be measured by using the following techniques:

1. Net Assets (aka Member Equity), and
2. Liquid Asset Ratio
3. Reserves – increase annually by a minimum of 10% through the combination of investment returns and contributions

Net Assets is a balance sheet calculation taking Total Assets of the organization and subtracting all existing Liabilities and is the single most significant measurement of financial strength of associations. Over time, the ideal target for net assets should be equal to 90% of the Total Assets for the organization. Net assets at the end of any given fiscal year shall not fall below a 85% level (also known as the floor/minimum) without Board approval. There should also be an annual increase to the Net Assets of minimum of 5%.



New York State West Youth Soccer Association, Inc. Financial Philosophy

Liquid Asset Ratio is a calculation that measures the ability of the organization to meet its current obligations (liabilities) in addition to providing an adequate reserve to meet unexpected needs/emergencies that may arise. The ratio is calculated as follows:

- Numerator = Cash in the Reserve Fund + Total Operating Cash
- Denominator = Accounts Payable and Accrued Liabilities

The ideal Liquid Asset level should be 10.0 to 1 and will be calculated at the end of each month. To the extent the ratio falls below this level, the Treasurer will examine its finances to determine whether temporary or permanent cost cutting measures need to be considered and report recommendations to Board for further review.

To determine if we met the success criteria of a 10% increase in Reserves, the following calculation will be completed.

- Numerator = Current year balance in Reserves
- Denominator = Previous year's balance in Reserves

The results should be greater than 1.10 to meet the success criteria.

All of the above ratios must be met before the organization will consider investing back into programs and/or deficit spending will be considered.

Policy Statement: The NYSW Board of Directors supports the measurement of financial strength of NYSW will be based on the concepts of Net Assets, Liquid Asset Ratio and Increase in value of Reserves. At the end of each fiscal year Net Assets will not fall below 85% or Liquid Assets will not fall below a ratio of 10.0 to 1 or increase in Reserves will not fall below 10% annually. We strive to reach and maintain these targets with adjustments evaluated yearly by the President, Treasurer and the investment committee and reported to the board not less than yearly.

Strategy #4 – Reserves

Broadly defined, Reserves for the association represent funds set aside for specific future use and to secure our relevancy as an organization. One of NYSW's key strategic priorities is to be in a position of financial strength. We recognize that having sound reserve policies is a structural/organizational necessity to support this objective. To this end, the finance committee is recommending a two-tiered reserve structure... **one** for emergency needs.... and **one** to ensure that NYSW both sustains itself and allows for investment in its future.

Emergency/Working Capital Reserves: NYSW's emergency reserves are defined as liquid funds set aside to finance unknown events/disasters and unexpected short-term cash operating needs.

- **Calculation:** 10% of current budgeted expenses. This proposal is an amendment to our current policy developed in 2005. The Reserve account will be adjusted annually, in September of each year. Currently, NYSW needs \$125,000 (based on 2008 budget) to fully fund this reserve (and is fully funded at the present time).



New York State West Youth Soccer Association, Inc. Financial Philosophy

Organizational/Operational related...and represents excess reserves (beyond the minimum emergency level) principally generated by positive operating and investment portfolio results over a period of time that would remain in this reserve account and may become the source to a) pursue strategic initiatives, or b) maintain in reserves to reach a higher "Net Asset" position. With regards to strategic investments, it is the President's responsibility to present initiatives to the investment committee and Board of Directors explaining the specifics, including but not limited to and expected outlays (investments) and related returns (benefits) to the organization.

The ultimate goal of NYSW is to achieve and maintain a targeted balance equal to 35% of total assets in this reserve fund (calculation date at the end of each fiscal year). Presently this reserve is fully funded. Specific controls and potential uses of organizational reserves will be reviewed at least annually based by the President, Treasurer and investment committee. Needs and circumstance will guide our decisions, with Board approval.

Policy Statement: The NYSW Board of Directors supports the implementation and use of Reserves as described above.

Strategy #5 – Investments (defined)

Definition - Investments shall encompass not only funds allocated to marketable securities, but also funding of initiatives designed to impact member value and revenue growth in dramatic ways to ensure our financial viability and build our organizational relevance and identity.

Policy Statement: The NYSW Board, supports the use of the broader definition of investments (defined above) with regards to NYSW's investment accounts, on an ongoing basis. The Investment committee has the role, with input from the President and Treasurer, to determine and recommend to the board, the prudent limits and benchmarks for determining how much and when these investment funds can be made available for initiatives. Recommendations for use of funds where net assets are expected to be above the minimum net asset level require approval by simple majority of the eligible Board of Directors. Where net asset level at the end of the fiscal year would go below the minimum level 75% of the eligible Board of Directors must approve the recommendation.