2022

FINANCE OFFICER GUIDE

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Preface

The purpose of creating this document, "The Finance Officer Guide", is in no way intended to dictate to any Finance Officer how to go about fulfilling the obligations of their position. Rather, we hope that this document can serve as a resource to help Finance Officers along their journey in service to their Post and fellow Legionnaires.

While some Finance Officers come into the position with a wealth of knowledge from previous financial disciplines or general business experience, many do not. This guide strives to lay out a basic foundation of financial principles and how they may apply to the Finance Officer position at the Post level.

At its core, every Post is a business. The Post may be classified as a non-profit, but make no mistake, it is a non-profit *business*. As a business, there are certain requirements that must be followed. There are also general business best practices that should be followed in order to ensure a healthy and prosperous business year after year. This guide will touch on these aspects and the key role the Finance Officer plays.

One thing to keep in mind with this guide, it does go into detail at times. You don't need to know everything presented here in order to be a great Finance Officer. Again, this is a resource to reference as needed to help you out along the way. Over time we would like to continue to add to this document to stay current with the needs of Post Finance Officers as they evolve. We welcome your general input and contribution of any best practices that work well for you at your Post so that the information can be shared with others and benefit all of us.

Lastly, the Finance Officer does play a critical role in a Post's success. However, the financial success, or lack thereof, is not the sole responsibility of a Finance Officer. You do not, and should not, be tasked with or feel obligated to "do everything" finance related. You are not a bookkeeper. You are not an accountant. You are a Finance Officer. What does that mean? Let's get into it…

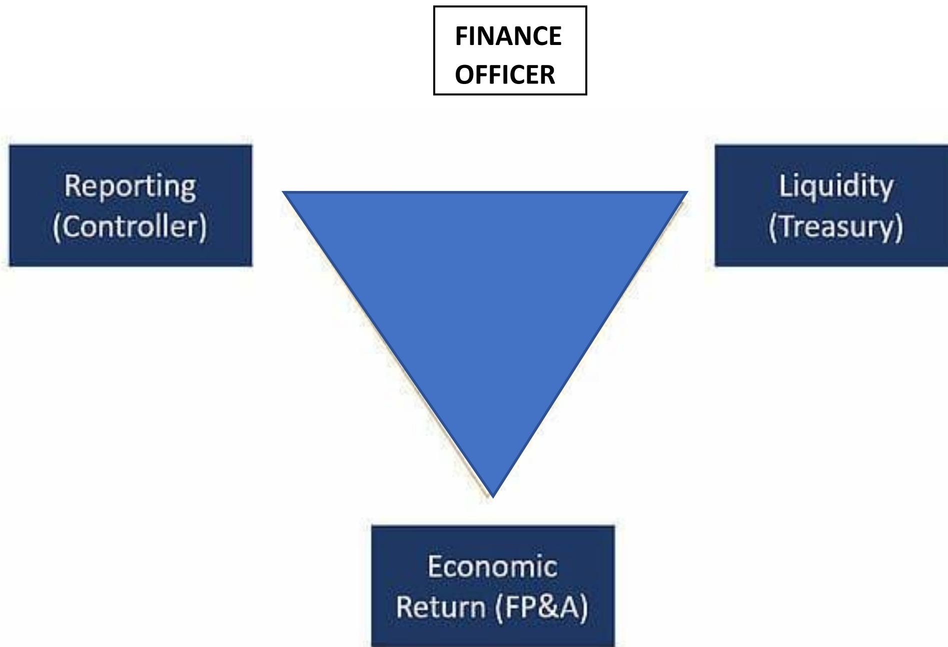
John Orendorff, Dept Finance Officer
David Roland, Dept Deputy Finance Officer

Chapter 1

What is the Main Job of the Finance Officer?

The primary job responsibility of the Financial Officer is to optimize the financial performance of a unit (Post, District, Dept) including its reporting, liquidity, and return on investment.

Within a functional entity, (group, organization, unit) these responsibilities fall into departments typically known as the accounting or **reporting** group, **treasury**, and financial planning and analysis (**FP&A**).



The job of the Finance Officer falls into three main categories, which are broken down further.

1. Reporting

Reporting takes up a lot of a FO's time, and this responsibility typically resides in the accounting group. This team prepares all of the unit's historical financial reports required for members, employees, lenders, research analysts, governments, and regulatory bodies. This group is responsible for ensuring all reporting is prepared in an accurate and timely manner.

2. Liquidity

The FO needs to ensure the unit can meet its financial commitments and manage cash flow in the most efficient way. These responsibilities are usually carried out by the treasury group, which is usually smaller than the reporting (accounting) team. This group is tasked with managing the unit's cash balance and working capital, such as accounts payable, accounts receivable, and inventory. They also carry out the issuing of any debt, managing investments, and handle other liquidity-related decisions.

3. Return on Investment

The third thing a FO does is help the unit earn the highest possible risk-adjusted return on assets and return on capital (or return on equity). This is where the financial planning and analysis – FP&A team – comes in to help forecast future cash flow of the unit and then compare actual results to what was budgeted. FP&A plays a critical role in analytics and decision making in the unit.

What is a Finance Officer in charge of?

The Finance Officer oversees a unit's financial operations. This includes responsibility for internal and external financial reporting, stewardship of a unit's assets, and ownership of cash management. Increasingly, the role is more forward-looking and expanding to incorporate strategy and business partnership.

FINANCE OFFICER vs BOOKKEEPER

What Does a Bookkeeper Do?

Bookkeepers ensure that all company’s expenses, income, and transactions are recorded in the company’s books and reconcile the company’s financial accounts, typically on a monthly basis. Bookkeepers might also help with financial statement and financial report preparation. Although bookkeeping can be in-house staff position, most businesses employ bookkeepers on a freelance basis.

Bookkeepers can wear many different hats depending on what a business needs. That said, most bookkeepers nowadays use business accounting software to do their work. Plus, there are a few things that almost every bookkeeper can take care of for your business. Though the role of a bookkeeper is multifaceted, there are some core tenets to what bookkeepers do.

If you’re wondering what a bookkeeper does, then chances are you’re probably also wondering if you need one. We’ll explain the tasks that a bookkeeper can take care of for you, the going rate for a bookkeeper, and where to find a good bookkeeper.

What Else Does a Bookkeeper Do?

There's no one simple way to answer this question. Just like any other field of work, bookkeeping can look different from business to business. However, these are the most common tasks that bookkeepers tend to tackle:

- Record financial transactions
- Reconcile bank accounts
- Manage bank feeds
- Handle accounts receivable
- Handle accounts payable
- Work with your tax preparer and assist with tax compliance
- Prepare financial statements
- Take on some payroll and human resource functions
- Make technology and process streamlining recommendations

Here's a closer look at what a bookkeeper does:

Reconcile Your Bank Accounts

The most important task for any bookkeeper is to reconcile your financial accounts. Account reconciliation ensures that transaction details in your accounting software match transaction details on your bank account statements, credit card statements, and other financial account statements.

It's important to regularly reconcile your accounts to avoid overdraft fees, fraudulent charges, or incorrectly recorded transactions. Accounting software makes reconciliation pretty easy, but a human touch is still required to make sure all transactions are accurately recorded.

Manage Bank Feeds

At a basic level, your bookkeeping service or bookkeeper should be managing the transactions brought in through your accounting system's bank feed. Bank feeds link up your accounting software with your business bank account, allowing you to see each transaction in real-time.

The accounting software, depending on how effective it is, should be able to automatically categorize certain transactions. For example, a credit card transaction

from an airline can be automatically categorized as a travel expense. Bookkeepers keep an eye on these transactions and make sure they are being categorized correctly.

Bookkeepers might also have to manually add any transactions that aren't included in the bank feed. The transactions that need to be added will most likely be transactions generated *outside* of the accounting system, such as cash payments or handwritten checks. It could also involve matching deposits as customer payments to help manage accounts receivable or outgoing transactions as payments against vendor bills.

Handle Accounts Receivable

Accounts receivable management can take on a few forms. As mentioned above, the small business staff might be entering their own estimates or invoices, and they might be receiving payment against the invoices.

However, there's another option. The client uses an industry-specific estimating program to calculate the job, then provides the bookkeeper with the total. They then enter the estimates into their QuickBooks Online account and create or progress invoices as the project moves along.

Creating invoices, sending them to customers, providing statements, and assisting in collections is all part of the A/R services we provide for our clients. The customer lets the bookkeeper know when they've been paid, we enter that payment in QuickBooks Online, and then we create a deposit to match what the client takes to the bank.

Handle Accounts Payable

Along with accounts receivable, many bookkeepers also handle their clients' accounts payable. That means the bookkeeper will handle all the vendor bills that the company receives. Bookkeepers will note payment deadlines from each vendor, early payment discounts if available, and submit payment to the vendor. As a company grows, bookkeepers can add on an additional approvers to give the thumbs up for payments. Properly managing your accounts payable is important for maintaining relationships with suppliers and keeping positive trade credit terms.

Work with Your Tax Preparer

One of the services that many bookkeepers fail to mention is that, by default, they're going to serve as a sort of translator between you and your certified public accountant

or enrolled agent. Because bookkeepers have a much more intimate knowledge of your books, it's sometimes easier to have your bookkeeper contact your tax preparer when you're about to file your small business taxes.

Prepare Financial Statements

Most bookkeepers will prepare three major financial statements for your business—the profit and loss statement, balance sheet, and cash flow statement. It's a good idea to have updated financial statements every month, and then again at year end. The profit and loss statement shows your business's bottom line and operating expenses. The balance sheet shows your business's balance of assets and liabilities. The cash flow statement shows the cash flowing into and out of your company. Accounting software allows bookkeepers to prepare these financial statements and share them with your accountant and tax preparer.

Process Payroll

Bookkeepers also, at times, fulfill payroll and human resource functions. Your bookkeeping service might have a payroll offering, or they might assist you in the processing of paychecks or tax payments and forms. They might simply input payroll data into your accounting system after your payroll service provider has submitted reports to you, or they might import the data from a file provided. Bookkeepers might also help you manage timesheets for hourly employees or overtime.

Make Technology and Process Streamlining Recommendations

Bookkeepers are also pretty good at keeping up with the latest and greatest technologies. It's not unusual for your bookkeeper to find a new app or solution specific to your industry, like self-employed accounting software, for example, especially if many of their clients work in the same space. Or maybe there's a way to help you cut labor costs. Bookkeepers like to search for efficiencies and make your back office run as smoothly as possible. In this way, they can be a very valuable partner to your business.

Chapter 2

INCOME STATEMENT (P&L)

What is an Income Statement?

An income statement is one of the most common, and critical, of the financial statements you're likely to encounter.

Also known as profit and loss (P&L) statements, income statements summarize all income and expenses over a given period, including the cumulative impact of revenue, gain, expense, and loss transactions. Income statements are often shared as quarterly and annual reports, showing financial trends and comparisons over time.

Income Statement vs. The Balance Sheet

While the definition of an income statement may remind you of a balance sheet, the two documents are designed for different uses. An income statement tallies income and expenses; a balance sheet, on the other hand, records assets, liabilities, and equity.

What's the Purpose of an Income Statement?

The purpose of an income statement is to show a company's financial performance over a period. It tells the financial story of a business's activities.

Within an income statement, you'll find all revenue and expense accounts for a set period. Accountants create income statements using trial balances from any two points in time.

From an income statement and other financial documents, such as the cash flow statement, balance sheet, and annual report, you can determine whether the business is generating a profit; if it's spending more than it earns; when costs are highest and lowest; how much it's paying to produce its product; and whether it has the cash to invest back into the business.

Accountants, investors, and business owners regularly review income statements to understand how well a business is doing in relation to its expected performance and use

that understanding to adjust their actions. A business owner whose company misses targets might, for example, pivot strategy to improve in the next quarter. Similarly, an investor might decide to sell an investment to buy into a company that's meeting or exceeding its goals.

What Goes on an Income Statement?

While all financial data helps paint a picture of a company's financial health, an income statement is one of the most important documents a company's leadership team and individual investors can review, because it includes a detailed breakdown of income and expenses over the course of a reporting period. This includes:

- Revenue: The amount of money a business takes in during a reporting period
- Expenses: The amount of money a business spends during a reporting period
- Costs of goods sold (COGS): The cost of component parts of what it takes to make whatever it is a business sells
- Gross profit: Total revenue less COGS
- Operating income: Gross profit less operating expenses
- Income before taxes: Operating income less non-operating expenses
- Net income: Income before taxes less taxes
- Earnings per share (EPS): Division of net income by the total number of outstanding shares
- Depreciation: The extent to which assets (for example, aging equipment) have lost value over time.

The Bottom Line

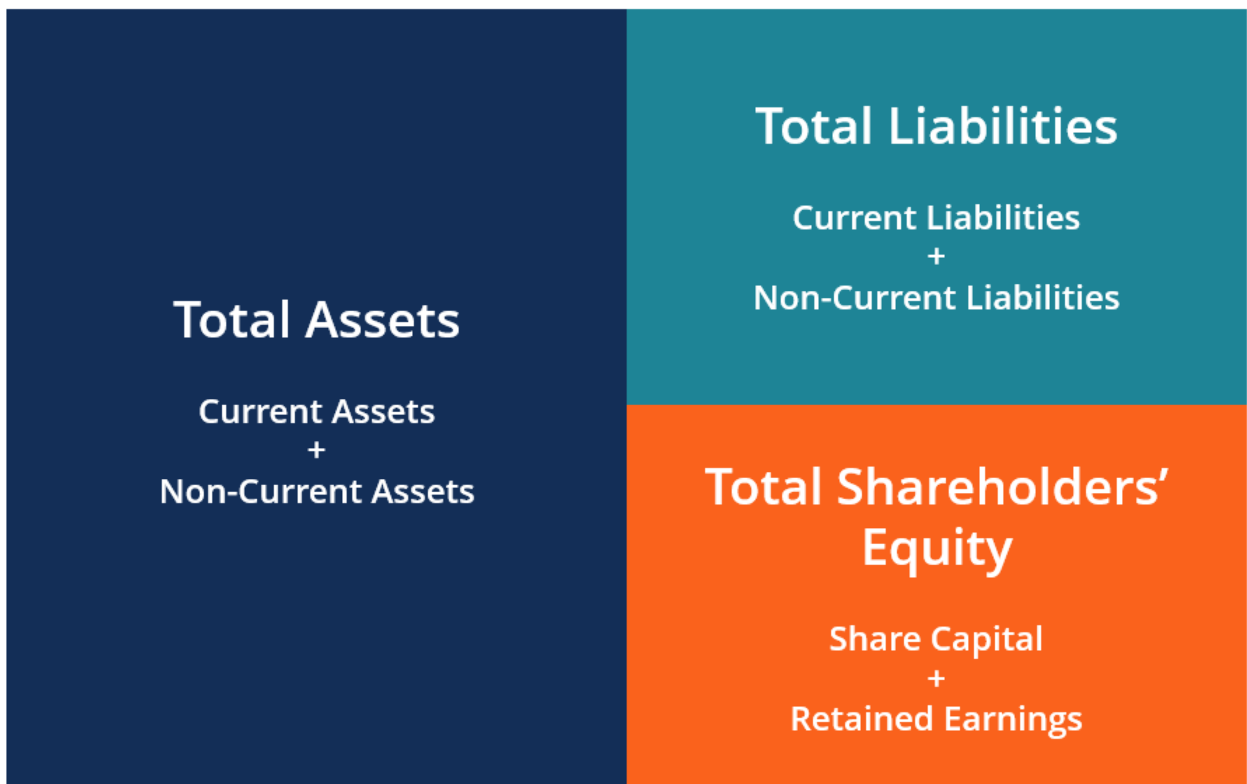
In conjunction with the cash flow statement, balance sheet, and annual report, income statements help company leaders, analysts, and investors understand the full picture of a business's operational results so they can determine its value and efficiency and, ideally, predict its future trajectory.

Financial analysis of an income statement can reveal that the costs of goods sold are falling, or that sales have been improving, while return on equity is rising. Income statements are also carefully reviewed when a business wants to cut spending or determine strategies for growth.

Chapter 3

What is the Balance Sheet?

The balance sheet is one of the three fundamental financial statements and is key to both financial modeling and accounting. The balance sheet displays the company's total assets, and how these assets are financed, through either debt or equity. It can also be referred to as a statement of net worth, or a statement of financial position. The balance sheet is based on the fundamental equation: **Assets = Liabilities + Equity**.



As such, the balance sheet is divided into two sides (or sections). The left side of the balance sheet outlines all a company's assets. On the right side, the balance sheet outlines the company's liabilities and shareholders' equity. The assets and liabilities are separated into two categories: current asset/liabilities and non-current (long-term) assets/liabilities. More liquid accounts, such as Inventory, Cash, and Trades Payables, are placed in the current section before illiquid accounts (or non-current) such as Plant, Property, and Equipment (PP&E) and Long-Term Debt.

What Does a Company Balance Sheet Tell You?

A balance sheet shows what a company owns and owes and how much shareholders have invested.

THE BALANCE SHEET FORMULA

Assets = Liabilities + Shareholders' Equity

cash, inventory, property | *rent, wages, utilities, taxes, loans* | *retained earnings*

Investopedia

Balance Sheet Example

[Company Name]					
Balance Sheet					
[USD $ millions]					
	2014	2015	2016	2017	2018
Assets					
Current assets:					
Cash	167,971	181,210	183,715	211,069	239,550
Accounts Receivable	5,100	5,904	6,567	7,117	7,539
Prepaid expenses	4,806	5,513	5,170	5,998	5,682
Inventory	7,805	9,601	9,825	10,531	11,342
Total current assets	185,682	202,228	205,277	234,715	264,112
Property & Equipment	45,500	42,350	40,145	38,602	37,521
Goodwill	3,580	3,460	3,910	3,870	3,850
Total Assets	**234,762**	**248,038**	**249,332**	**277,187**	**305,483**
Liabilities					
Current liabilities:					
Accounts Payable	3,902	4,800	4,912	5,265	5,671
Accrued expenses	1,320	1,541	1,662	1,865	1,899
Unearned revenue	1,540	1,560	1,853	1,952	1,724
Total current liabilities	6,762	7,901	8,427	9,082	9,294
Long-term debt	50,000	50,000	30,000	30,000	30,000
Other long-term liabilities	5,526	5,872	5,565	6,051	5,909
Total Liabilities	**62,288**	**63,773**	**43,992**	**45,133**	**45,203**
Shareholder's Equity					
Equity Capital	170,000	170,000	170,000	170,000	170,000
Retained Earnings	2,474	14,265	35,340	62,053	90,280
Shareholder's Equity	**172,474**	**184,265**	**205,340**	**232,053**	**260,280**
Total Liabilities & Shareholder's Equity	**234,762**	**248,038**	**249,332**	**277,187**	**305,483**
Check	*0.000*	*0.000*	*0.000*	*0.000*	*0.000*

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How the Balance Sheet is Structured

Balance sheets, like all financial statements, will have minor differences between organizations and industries. However, there are several "buckets" and line items that are almost always included in common balance sheets. We briefly go through commonly found line items under Current Assets, Long-Term Assets, Current Liabilities, Long-term Liabilities, and Equity.

Current Assets

Cash and Equivalents

The most liquid of all assets, cash, appears on the first line of the balance sheet. Cash Equivalents are also lumped under this line item and include assets that have short-term maturities under three months or assets that the company can liquidate on short notice, such as marketable securities. Companies will generally disclose what equivalents it includes in the footnotes to the balance sheet.

Accounts Receivable

This account includes the balance of all sales revenue still on credit, net of any allowances for doubtful accounts (which generates a bad debt expense). As companies recover accounts receivables, this account decreases, and cash increases by the same amount.

Inventory

Inventory includes amounts for raw materials, work-in-progress goods, and finished goods. The company uses this account when it reports sales of goods, generally under cost of goods sold in the income statement.

Non-Current Assets

Plant, Property, and Equipment (PP&E)

Property, Plant, and Equipment (also known as PP&E) capture the company's tangible fixed assets. This line item is noted net of accumulated depreciation. Some companies will class out their PP&E by the different types of assets, such as Land, Building, and various types of Equipment. All PP&E is depreciable except for Land.

Intangible Assets

This line item includes all of the company's intangible fixed assets, which may or may not be identifiable. Identifiable intangible assets include patents, licenses, and secret formulas. Unidentifiable intangible assets include brand and goodwill.

Current Liabilities

Accounts Payable

Accounts Payables, or AP, is the amount a company owes suppliers for items or services purchased on credit. As the company pays off their AP, it decreases along with an equal amount decrease to the cash account.

Current Debt/Notes Payable

Includes non-AP obligations that are due within one year's time or within one operating cycle for the company (whichever is longest). Notes payable may also have a long-term version, which includes notes with a maturity of more than one year.

Current Portion of Long-Term Debt

This account may or may not be lumped together with the above account, Current Debt. While they may seem similar, the current portion of long-term debt is specifically the portion due within this year of a piece of debt that has a maturity of more than one year. For example, if a company takes on a bank loan to be paid off in 5-years, this account will include the portion of that loan due in the next year.

Non-Current Liabilities

Bonds Payable

This account includes the amortized amount of any bonds the company has issued.

Long-Term Debt

This account includes the total amount of long-term debt (excluding the current portion, if that account is present under current liabilities). This account is derived from the debt schedule, which outlines all of the company's outstanding debt, the interest expense, and the principal repayment for every period.

Shareholders' Equity

Share Capital

This is the value of funds that shareholders have invested in the company. When a company is first formed, shareholders will typically put in cash. For example, an investor starts a company and seeds it with $10M. Cash (an asset) rises by $10M and Share Capital (an equity account) rises by $10M, balancing out the balance sheet.

Retained Earnings

This is the total amount of net income the company decides to keep. Every period, a company may pay out dividends from its net income. Any amount remaining (or exceeding) is added to (deducted from) retained earnings.

How is the Balance Sheet used in Financial Modeling?

This statement is a great way to analyze a company's financial position. An analyst can generally use the balance sheet to calculate a lot of financial ratios that help determine how well a company is performing, how liquid or solvent a company is, and how efficient it is.

Changes in balance sheet accounts are also used to calculate cash flow in the cash flow statement. For example, a positive change in plant, property, and equipment is equal to capital expenditure minus depreciation expense. If depreciation expense is known, capital expenditure can be calculated and included as a cash outflow under cash flow from investing in the cash flow statement.

	A	E	F	G	H	I	J	K	L	M
1	© Corporate Finance Institute. All rights reserved.	Historical Results				Forecast Period				
2	**Financial Model**	2014	2015	2016	2017	2018	2019	2020	2021	2022
77										
78	**Balance Sheet**									
79										
80	**Assets**									
81	Cash	81,210	83,715	111,069	139,550	159,474	182,573	190,511	224,399	261,248
82	Accounts Receivable	5,904	6,567	7,117	7,539	8,179	8,997	9,896	10,758	11,650
83	Inventory	9,601	9,825	10,531	11,342	15,267	19,343	24,191	26,894	29,772
84	**Current Assets**	**96,715**	**100,107**	**128,717**	**158,430**	**182,920**	**210,913**	**224,599**	**262,051**	**302,670**
85	Property & Equipment	42,350	40,145	38,602	37,521	45,017	51,013	55,811	59,649	62,719
86	Goodwill									
87	**Total Assets**	**139,065**	**140,252**	**167,319**	**195,951**	**227,937**	**261,927**	**280,410**	**321,700**	**365,389**
88										
89	**Liabilities**									
90	Short Term Debt									
91	Accounts Payable	4,800	4,912	5,265	5,671	7,061	7,952	8,951	9,951	11,016
92	**Current Liabilities**	**4,800**	**4,912**	**5,265**	**5,671**	**7,061**	**7,952**	**8,951**	**9,951**	**11,016**
93	Long Term Debt	50,000	30,000	30,000	30,000	30,000	30,000	10,000	10,000	10,000
94	**Total Liabilities**	**54,800**	**34,912**	**35,265**	**35,671**	**37,061**	**37,952**	**18,951**	**19,951**	**21,016**
95	**Shareholder's Equity**									
96	Equity Capital	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000
97	Retained Earnings	14,265	35,340	62,053	90,280	120,876	153,974	191,459	231,749	274,373
98	**Shareholder's Equity**	**84,265**	**105,340**	**132,053**	**160,280**	**190,876**	**223,974**	**261,459**	**301,749**	**344,373**
99	**Total Liabilities & Shareholder's Equity**	**139,065**	**140,252**	**167,319**	**195,951**	**227,937**	**261,927**	**280,410**	**321,700**	**365,389**
100										
101	*Check*	*0.0000*	*0.0000*	*0.0000*	*0.0000*	*0.0000*	*0.0000*	*0.0000*	*0.0000*	*0.0000*
102										

Importance of the Balance Sheet

The balance sheet is a very important financial statement for many reasons. It can be looked at on its own, and in conjunction with other statements like the income statement and cash flow statement to get a full picture of a company's health.

Four important financial performance metrics include:

1. **Liquidity** – Comparing a company's current assets to its current liabilities provides a picture of liquidity. Current assets should be greater than current liabilities so the company can cover its short-term obligations. The Current Ratio and Quick Ratio are examples of liquidity financial metrics.
2. **Leverage** – Looking at how a company is financed indicates how much leverage it has, which in turn indicates how much financial risk the company is taking. Comparing debt to equity and debt to total capital are common ways of assessing leverage on the balance sheet.
3. **Efficiency** – By using the income statement in connection with the balance sheet it's possible to assess how efficiently a company uses its assets. For example, dividing revenue by the average total assets produces the Asset Turnover Ratio to indicate how efficiently the company turns assets into revenue. Additionally, the working capital cycle shows how well a company manages its cash in the short term.
4. **Rates of Return** – The balance sheet can be used to evaluate how well a company generates returns. For example, dividing net income by shareholders' equity produces Return on Equity (ROE), and dividing net income by total assets produces Return on Assets (ROA), and dividing net income by debt plus equity results in Return on Invested Capital (ROIC).

Chapter 4

Cash Flow Statement

What Is a Cash Flow Statement?

A cash flow statement is a financial statement that provides aggregate data regarding all cash inflows a company receives from its ongoing operations and external investment sources. It also includes all cash outflows that pay for business activities and investments during a given period.

A company's financial statements offer investors and analysts a portrait of all the transactions that go through the business, where every transaction contributes to its success. The cash flow statement is believed to be the most intuitive of all the financial statements because it follows the cash made by the business in three main ways—through operations, investment, and financing. The sum of these three segments is called net cash flow.

These three different sections of the cash flow statement can help investors determine the value of a company's stock or the company as a whole.

Key Takeaways

- A cash flow statement provides data regarding all cash inflows a company receives from its ongoing operations and external investment sources.
- The cash flow statement includes cash made by the business through operations, investment, and financing—the sum of which is called net cash flow.
- The first section of the cash flow statement is cash flow from operations, which includes transactions from all operational business activities.
- Cash flow from investment is the second section of the cash flow statement, and is the result of investment gains and losses.
- Cash flow from financing is the final section, which provides an overview of cash used from debt and equity.

Understanding How Cash Flow Statements Work

The three main financial statements are the balance sheet and income statement. The cash flow statement is an important document that helps open a window for interested parties' insight into all the transactions that go through a company.

There are two different branches of accounting—accrual and cash. Most public companies use accrual accounting, which means the income statement is not the same as the company's cash position. The cash flow statement, though, is focused on cash accounting. Most American Legion Posts use the **CASH** method.

Profitable companies can fail to adequately manage cash flow, which is why the cash flow statement is a critical tool for companies, analysts, and investors. The cash flow statement is broken down into three different business activities: operations, investing, and financing.

Let's consider a company that sells a product and extends credit for the sale to its customer. Even though it recognizes that sale as revenue, the company may not receive cash until a later date. The company earns a profit on the income statement and pays income taxes on it, but the business may bring in more or less cash than the sales or income figures.

Investors and analysts should use good judgment when evaluating changes to working capital, as some companies may try to boost up their cash flow before reporting periods.

Cash Flows from Operations

This is the first section of the cash flow statement covers cash flows from operating activities (CFO) and includes transactions from all operational business activities. The cash flows from operations section begins with net income, then reconciles all noncash items to cash items involving operational activities. So, in other words, it is the company's net income, but in a cash version.

This section reports cash flows and outflows that stem directly from a company's main business activities. These activities may include buying and selling inventory and supplies, along with paying its employees their salaries. Any other forms of in and outflows such as investments, debts, and dividends are not included.

Companies are able to generate sufficient positive cash flow for operational growth. If there is not enough generated, they may need to secure financing for external growth in order to expand.

For example, accounts receivable is a noncash account. If accounts receivable go up during a period, it means sales are up, but no cash was received at the time of sale. The cash flow statement deducts receivables from net income because it is not cash.

The cash flows from the operations section can also include accounts payable, depreciation, amortization, and numerous prepaid items booked as revenue or expenses, but with no associated cash flow.

Cash Flows From Investing

This is the second section of the cash flow statement looks at cash flows from investing (CFI) and is the result of investment gains and losses. This section also includes cash spent on property, plant, and equipment. This section is where analysts look to find changes in capital expenditures (capex).

When capex increases, it generally means there is a reduction in cash flow. But that's not always a bad thing, as it may indicate that a company is making investment into its future operations. Companies with high capex tend to be those that are growing.

While positive cash flows within this section can be considered good, investors would prefer companies that generate cash flow from business operations—not through investing and financing activities. Companies can generate cash flow within this section by selling equipment or property.

Cash Flows From Financing

Cash flows from financing (CFF) is the last section of the cash flow statement. The section provides an overview of cash used in business financing. It measures cash flow between a company and its owners and its creditors, and its source is normally from debt or equity. These figures are generally reported annually on a company's 10-K report to shareholders .

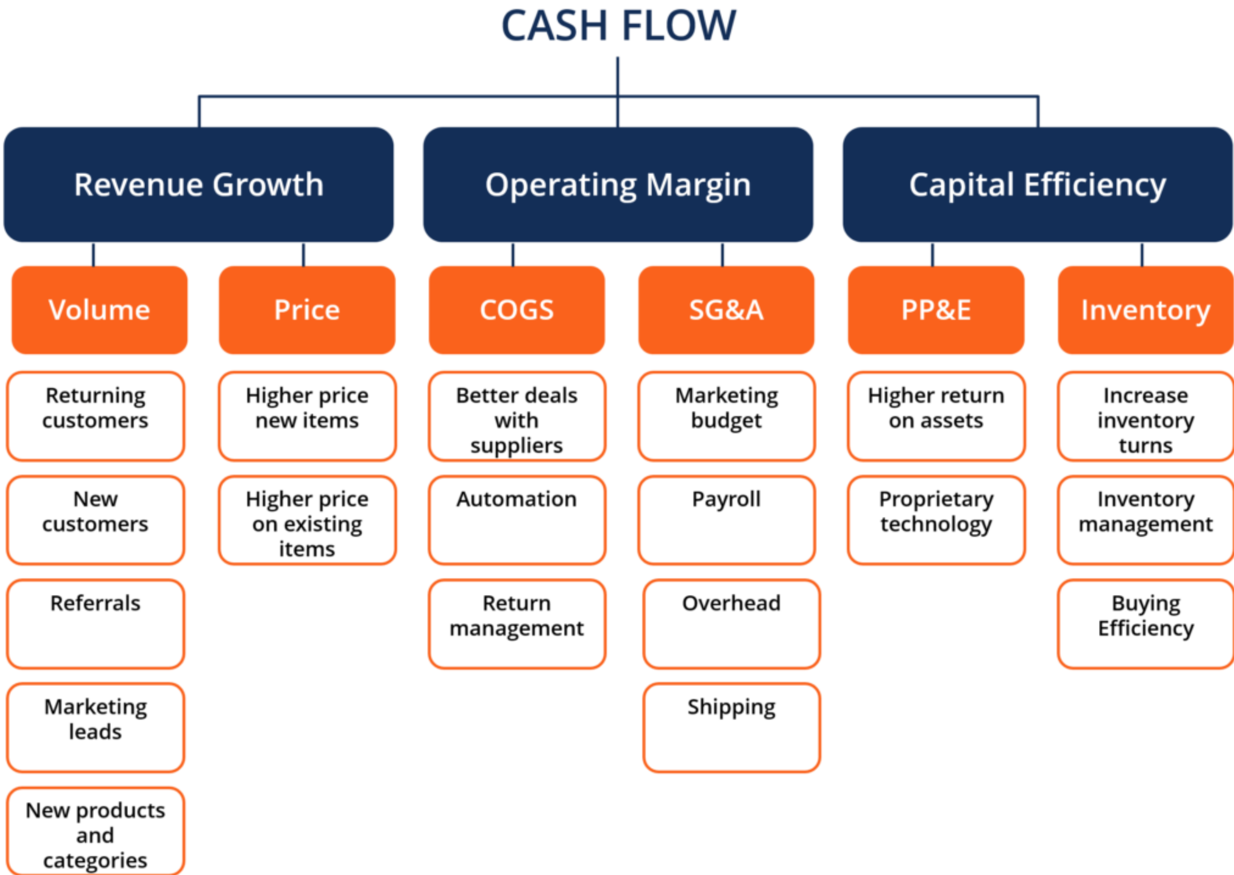
Analysts use the cash flows from financing section to determine how much money the company has paid out via dividends or share buybacks. It is also useful to help determine how a company raises cash for operational growth.

Cash obtained or paid back from capital fundraising efforts, such as equity or debt, is listed here, as are loans taken out or paid back.

When the cash flow from financing is a positive number, it means there is more money coming into the company than flowing out. When the number is negative, it may mean the company is paying off debt, or is making dividend payments and/or stock buybacks.

Cash Flow Generation Strategies

Since Cash Flow (CF) matters so much, it's only natural that managers of businesses do everything in their power to increase it. Below is an infographic that demonstrates how CF can be increased using different strategies.



Chapter 5

Chart of Accounts: The Ultimate Guide

The Chart of Accounts is one of those unknown parts of your accounting software we don't even think about. What most entrepreneurs don't realize is that the chart of accounts represents the foundation of your accounting process, if you don't set up the chart of accounts correctly, your bookkeeping and financial records will have major negative impacts.

What is the Chart of Accounts?

The chart of accounts is a listing of all accounts tracked by your business in your accounting software general ledger.

Why is The Chart of Accounts important?

Think about the chart of accounts as the foundation of a building, in the chart of accounts you decide how your transactions are categorized and reported in your financial statements.

While the chart of accounts can be similar across businesses in similar industries, you should create a chart of accounts that is unique to your individual business. You should ask yourself, what do I want to track in my business and how do I want to organize this information? For example, we often suggest our clients break down their sales by revenue stream rather than just lumping all sales in a Revenue category. By doing so, you can easily understand what products or services are generating the most revenue in your business. Be careful not to overly complicate your chart of accounts. If you create too many categories in your chart of account, you can make your entire financial reports difficult to read and analyze. Therefore, you need to find the right balance between, creating a chart of accounts that organizes transactions in broad categories and provides the level of detail you need in order to make informed business decisions.

Chart of Accounts examples:

In virtually all accounting software, chart of accounts are grouped in a specific numeric range that identifies the type of account and where is reported in the financial statements. Below is how Xero usually groups their chart of accounts, QuickBooks uses a similar methodology:

Numeric Range	**Account Type**	**Financial Report**
100 – 199	Assets	Balance Sheet
200 – 299	Liabilities	Balance Sheet
300 – 399	Equity	Balance Sheet
400 – 499	Revenue	Profit & Loss
500 – 599	Cost of Goods Sold	Profit & Loss
600 – 699	Operating Expenses	Profit & Loss
700 – 799	Taxes Paid	Profit & Loss
800 – 899	Other Expenses	Profit & Loss

Below is an example of a typical chart of account:

***Code**	***Name**	***Type**
101	Checking Account	Bank
102	Savings Account	Bank
120	Accounts Receivable	Accounts Receivable
130	Prepayments	Current Asset
140	Inventory	Inventory
150	Office Equipment	Fixed Asset
151	Less Accumulated Depreciation on Office Equipment	Fixed Asset
160	Computer Equipment	Fixed Asset
161	Less Accumulated Depreciation on Computer Equipment	Fixed Asset
200	Accounts Payable	Accounts Payable
205	Accruals	Current Liability
210	Unpaid Expense Claims	Unpaid Expense Claims
215	Wages Payable	Wages Payable
216	Wages Payable – Payroll	Current Liability
220	Sales Tax	Sales Tax
230	Employee Tax Payable	Current Liability
231	Federal Tax withholding	Current Liability
232	State Tax withholding	Current Liability
233	Employee Benefits payable	Current Liability
234	Employee Deductions payable	Current Liability
235	PTO payable	Current Liability
240	Income Tax Payable	Current Liability
250	Suspense	Current Liability
255	Historical Adjustment	Historical Adjustment

260	Rounding	Rounding
265	Tracking Transfers	Tracking
290	Loan	Non-current Liability
300	Owners Contribution	Equity
310	Owners Draw	Equity
320	Retained Earnings	Retained Earnings
330	Common Stock	Equity
400	Sales	Revenue
460	Other Revenue	Revenue
470	Interest Income	Revenue
480	Refunds	Revenue
500	Cost of Goods Sold	Direct Costs
600	Advertising	Expense
604	Bank Service Charges	Expense
608	Janitorial Expenses	Expense
612	Consulting & Accounting	Expense
620	Entertainment	Expense
624	Postage & Delivery	Expense
628	General Expenses	Expense
632	Insurance	Expense
640	Legal Expenses	Expense
644	Utilities	Expense
648	Automobile Expenses	Expense
652	Office Expenses	Expense
656	Printing & Stationery	Expense
660	Rent	Expense
664	Repairs and Maintenance	Expense
668	Wages and Salaries	Expense
669	Wages & Salaries – California	Expense
672	Payroll Tax Expense	Expense
676	Dues & Subscriptions	Expense
680	Telephone & Internet	Expense
684	Travel	Expense
690	Bad Debts	Expense
700	Depreciation	Expense
710	Income Tax Expense	Expense
720	Federal Tax expense	Expense
721	State Tax expense	Expense
722	Employee Benefits expense	Expense
723	PTO expense	Expense

800	Interest Expense	Expense
810	Bank Revaluations	Bank Revaluations
815	Unrealized Currency Gains	Unrealized Currency Gains
820	Realized Currency Gains	Realized Currency Gains
835	Revenue Received in Advance	Current Liability
855	Clearing Account	Current Liability

Chapter 6

What Is a Budget?

A budget is an estimation of revenue and expenses over a specified future period of time and is usually compiled and re-evaluated on a periodic basis. Budgets can be made for a person, a group of people, a business, a government, or just about anything else that makes and spends money.

To manage your monthly expenses, prepare for life's unpredictable events, and be able to afford big-ticket items without going into debt, budgeting is important. Keeping track of how much you earn and spend doesn't have to be drudgery, doesn't require you to be good at math, and doesn't mean you can't buy the things you want. It just means that you'll know where your money goes, you'll have greater control over your finances

Understanding Budgeting

A budget is a microeconomic concept that shows the trade-off made when one good is exchanged for another. In terms of the bottom line—or the end result of this trade-off—a surplus budget means profits are anticipated, a balanced budget means revenues are expected to equal expenses, and a deficit budget means expenses will exceed revenues.

Key Takeaways

- A budget is an estimation of revenue and expenses over a specified future period of time and is utilized by governments, businesses, and individuals.
- A budget is basically a financial plan for a defined period, normally a year that is known to greatly enhance the success of any financial undertaking.
- Corporate budgets are essential for operating at peak efficiency.
- Aside from earmarking resources, a budget can also aid in setting goals, measuring outcomes, and planning for contingencies.
- Personal budgets are extremely useful in managing an individual's or family's finances over both the short and long term horizon.

What is Budgeting?

Budgeting is the tactical implementation of a business plan. To achieve the goals in a business's strategic plan, we need a detailed descriptive roadmap of the business plan that sets measures and indicators of performance. We can then make changes along the way to ensure that we arrive at the desired goals.

Translating Strategy into Targets and Budgets

There are four dimensions to consider when translating high-level strategy, such as mission, vision, and goals, into budgets.

1. **Objectives** are basically the Post's goals, e.g., increasing the amount each member spends in the cantina.
2. Then, you develop one or more **strategies** to achieve Post goals. The company can increase customer spending by expanding product offerings, sourcing new suppliers, promotion, etc.
3. The finance officer needs to track and evaluate the effectiveness of the strategies, using relevant **measures**. For example, you can measure the average weekly spending per member and average price changes as inputs.
4. Finally, you should set **targets** that the post would like to reach by the end of a certain period. The targets should be quantifiable and time-based, such as an increase in the volume of sales or an increase in the number of members sold by a certain time.

Objectives	Strategies	Measures	Targets
What are you trying to achieve?	How are you going to achieve it?	What are the input and output measures?	Quantifiable and time-based
• Increase spend per customer	• Expand product offering • Source new suppliers • Promotion and marketing • Pricing	• Average weekly spend/customer • Spend by product type • Average price changes	• $ increase • Volume increase • % staff trained in new products

Goals of the Budgeting Process

Budgeting is a critical process for any business unit in several ways.

1. Aids in the planning of actual operations

The process gets managers to consider how conditions may change and what steps they need to take, while also allowing managers to understand how to address problems when they arise.

2. Coordinates the activities of the organization

Budgeting encourages managers to build relationships with the other parts of the operation and understand how the various units and teams interact with each other and how they all support the overall organization.

3. Communicating plans to various managers

Communicating plans to managers is an important social aspect of the process, which ensures that everyone gets a clear understanding of how they support the Post. It encourages communication of individual goals, plans, and initiatives, which all roll up together to support the growth of the business unit. It also ensures appropriate individuals are made **accountable** for implementing the budget.

4. Motivates managers to strive to achieve the budget goals

Budgeting gets managers to focus on participation in the budget process. It provides a challenge or target for individuals and managers by linking their compensation and performance relative to the budget.

5. Control activities

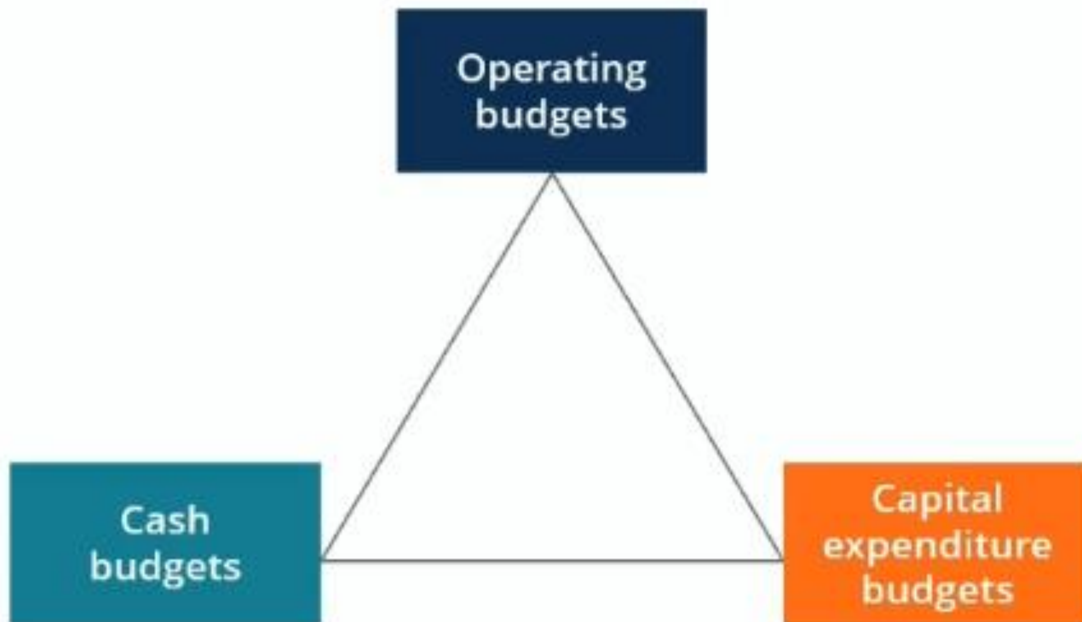
Managers can compare actual spending with the budget to control financial activities.

6. Evaluate the performance of managers

Budgeting provides a means of informing managers of how well they are performing in meeting targets they have set.

Types of Budgets

A robust budget framework is built around a master budget consisting of operating budgets, capital expenditure budgets, and cash budgets. The combined budgets generate a budgeted income statement, balance sheet, and cash flow statement.



1. Operating Budget

Revenues and associated expenses in day-to-day operations are budgeted in detail and are divided into major categories such as revenues, salaries, benefits, and non-salary expenses.

2. Capital Budget

Capital budgets are typically requests for purchases of large assets such as property, equipment, or IT systems that create major demands on an organization's cash flow. The purposes of capital budgets are to allocate funds, control risks in decision-making, and set priorities.

3. Cash Budget

Cash budgets tie the other two budgets together and take into account the timing of payments and the timing of receipt of cash from revenues. Cash budgets help management track and manage the company's cash flow effectively by assessing whether additional capital is required, whether the company needs to raise money, or if there is excess capital.

Chapter 7

Risk Management

FEMA reports that 40 to 60% of small businesses never reopen their doors after a natural disaster. AppRiver's Cyberthreat Index of Business Survey reports that 48% of small to midsize businesses say a major data breach would likely shut down their business permanently.

Scary stuff.

But if you're prepared, you're not doomed. A strong risk management plan can help your business mitigate and plan for such risks and keep you on the other end of those statistics.

And you don't need to be stressed about creating this plan. The risk management process doesn't necessarily need to be conducted by a risk manager or an expensive risk management consultant. You can create an informed and strong plan by following the steps we'll outline below.

In this article, we'll go over the five steps of the risk management process and explain the purpose of each, offer questions to ask yourself to get started, and share tips. This is a high-level overview, intended to help you create a simple risk management plan for your small business.

Note: Risk management can get extremely complex with exercises such as advanced impact calculations and in-depth root-cause analysis. If you have a larger businesses, are in a high-risk industry such as finance, or are a publicly-held company, you may need an enterprise risk management software *solution to manage a mature risk management strategy.*

What is risk management?

Before we dive into the process, let's take a step back and define risk management: Risk management is the act of identifying, evaluating, planning for, and then ultimately responding to threats to your business. The goal is to be prepared for what may happen and have a plan in place to react appropriately.

If you're new to risk management practices or feel like you need a refresher, we recommend checking out "Why Risk Management Is Important and How Software Can Help." In it, we explain exactly what a risk management plan is and take you through an example of a business owner developing a risk register and plan.

What are the five steps of the risk management process?

The five steps of the risk management process are identification, assessment, mitigation, monitoring, and reporting risks. By following the steps outlined below, you will be able to create a basic risk management plan for your business.

Here's are the five steps of a risk management process:

Risk Management Process

Identification
Write down all the threats and risks you can think of, and ask for ones from other stakeholders.

Assessment
Evaluate each risk by determining the likelihood of it happening and the level of impact it'd have.

Mitigation
Implement process changes to reduce the impact of each risk and a response plan for if it happens.

Monitoring
Review the progress of the plan and check if a risk has occurred but was missed on a continuous basis.

Reporting
Communicate the effectiveness of the risk plan to stakeholders to keep engagement up.

Software Advice.

Step 1: Risk identification

To start this process, list out any and all events that would have a negative impact on your business. Expect to add risks to your list over days, maybe even a couple weeks, and know that you won't think of all possible risks.

Be sure to ask leaders in other departments to identify risks, too. You want your plan to be as holistic and comprehensive as possible.

Here are some questions to ask yourself to help identify risks:

- Are there any new or recently updated legal and/or compliance laws we need to prepare to manage?
- Does this risk have an impact on other parts of the business? (If yes, be sure to include the risks to that department.)
- What events have caught us off guard in the past?

Tip: Give yourself a timebox for identifying risks, otherwise you'll get stuck in analysis paralysis and never move on to the next steps. Keep in mind that this entire process is an ongoing one, so you'll continue to add risks over time.

Step 2: Risk assessment

Now that you have a list of potential or existing threats and risks, it's time to assess the likelihood of the event happening and the level of impact. Doing this risk analysis helps determine the priority levels of each risk so you don't over- or under-allocate resources for mitigation in the next step.

Your assessment can be performed using a matrix like the one below. For each identified risk, determine both the likelihood of it happening and the level of negative impact it would have on your business. Write each risk in the corresponding box. This exercise is also best done in collaboration with leaders of each department.

Tip: Your first matrix should be a working document—use a format that makes it easy to move risks around. A virtual whiteboard or a shared document works well. Risk events may need to move around the matrix as you learn more about their impact or likelihood based on feedback from other department leads.

Risk Assessment Matrix

Likelihood \ Impact	Acceptable Little or no effect	Tolerable Effects are felt but not critical	Unacceptable Serious risk to business continuity	Intolerable Could result in disasters
Improbable Risk unlikely to occur	[Risk event]			
Possible Risk will likely occur		[Risk event]		
Probable Risk will occur				[Risk event]

Software Advice.

Step 3: Risk mitigation

Risk mitigation is where you will create and begin to implement the plan for the best way to reduce the likelihood and/or impact of each risk. You may not be able to come up with a mitigation plan for each and every risk, but it's important to try to identify what changes in your current processes can be adjusted to reduce risk.

Start with the risks you placed in the red boxes of your assessment matrix. Create a mitigation plan document where you name an owner for each risk and describe the steps to be taken if/when the risk event happens. You'll do this for each risk.

Here are some questions to consider as you craft the mitigation plan:

- How can we implement mitigation measures into our business systems and processes?
- Is the plan clearly stated so that anyone in the business could understand what action needs to be taken for each risk event?
- Is this action plan an appropriate level of response for this risk?

As this step is rather complex, let's use a medical office as an example for risk mitigation efforts:

Design your risk mitigation plans to be a natural part of business operations, wherever possible. To do this, collaborate with the other leaders in your business to coordinate mitigation efforts as seamlessly as possible into daily operations and strategic planning meetings.

Tip: It's easy to over-prioritize mitigation plans to the detriment of current business operations. You're not going to be able to implement every plan right away. Try to balance how you implement mitigation plans with ensuring that the burden of risk management doesn't impact operations. You also don't want to force an overhaul of an entire process just to mitigate a risk you placed in the green zone in the matrix. That'd be overkill.

Step 4: Risk monitoring

Now that you have identified, assessed, and made a mitigation plan, you need to monitor for both the effectiveness of your plan and the occurrence of risk events. Monitoring the status of risks, monitoring the effectiveness of mitigation plans implemented, and consulting with key stakeholders are all parts of the risk monitoring step. Risk monitoring should happen throughout the risk management process.

Here are some questions to ask yourself as you monitor risks:

- How do I keep the other department leaders engaged in helping monitor risk?
- How can I empower my team to identify and escalate risk incidents?
- Have there been any changes where a risk previously assessed as a high threat should be moved lower? Or vice versa?

Tip: Don't adopt a "wait and see" approach when it comes to risk monitoring—you may not know exactly when a risk event has occurred. Events such as cyberattacks and regulation changes can sometimes come to light months, even years, later, despite the security controls and risk control plan in place. Make sure that your risk management plan includes continuous monitoring so you aren't caught off guard with a failed audit when continuous monitoring could've helped you take action earlier.

Step 5: Risk reporting

You need to document, analyze, and share the progress of your risk management plan. Reporting on risks serves two key purposes: It helps you analyze and evaluate your risk management plan and helps keep stakeholders engaged in mitigating risks by sharing the progress made.

When you first start out, reporting can be done by manually entering the status of each risk into your mitigation plan on a regular basis. Then email the report, or at least the highlights, to the other department leads.

Risk reporting is where risk management software really shines as it can gather all the data points and create an easy-to-read dashboard. If reporting on risk is an important facet of managing your risk, we strongly recommend considering investing in software.

Here are some questions to help you when reporting on risks:

- Are these the right metrics to understand the progress of the plan?
- What's the best way to distribute risk reports so that stakeholders are informed but not overwhelmed with the data?
- How often should I share reports? Quarterly? Annually?

Tip: To garner support for and foster a risk management-focused culture, try to build a narrative for how the company (Post) is managing risks. Think about how to blend risk reporting with other functions of the business to tell one cohesive story. Throwing a bunch of stats and colored boxes at stakeholders (members) can be overwhelming and intimidating. But everyone loves a story, especially one that they're a part of.

Chapter 8

Capital Projects

What Is a Capital Project?

A capital project is a long-term, capital-intensive investment project with a purpose to build upon, add to, or improve a capital asset. Capital projects are defined by their large scale and large cost relative to other investments that involve less planning and resources.

Key Takeaways

- A capital project is an often pricy, long-term project that is meant to expand, maintain or improve upon a significant piece of property owned by the Post.
- A capital project is distinct from other projects as it is large in scale, high in cost, and requires considerable planning relative to other investments.
- Capital projects often refer to infrastructure, like parking lots, buildings, kitchen equipment.

Understanding Capital Projects

A capital project is a project in which the cost of the product is capitalized or depreciated. The most common examples of capital projects are infrastructure projects such as major equipment. In addition, these projects include assets such as land and buildings.

Capital projects are common at most American Legion Posts. Posts can allocate large amounts of resources (financial and human capital) to build or maintain capital assets, such as equipment or a new building project. In both cases, capital projects are typically planned and discussed to decide the most efficient and resourceful plan of execution.

Examples of Capital Projects

Regular capital investments, such as new facilities, structures, or systems, may be necessary to accelerate growth within a post or business unit. For example, if a post wants to build a new kitchen or purchase new equipment to increase efficiency. To

receive funding, capital projects are obligated to prove how the investment provides an improvement (additional capacity), new useful feature, or benefit (reduced costs).

Capital projects must be managed appropriately, for they require a significant commitment of post resources and time. The project assumes a calculated risk with the expectation that the capital asset pays off. Risk Management is a key driver of successful project development and delivery of a capital project.

A capital project financed by membership funds often seeks to build, renovate, or buy equipment, property, facilities; infrastructure and information technology systems are to be used as assets to benefit the membership.

Special Considerations

Additional funding sources for these projects include bonds, grants, bank loans, existing cash reserves, unit operation budgets, and private funding. These projects may require debt financing to secure funding. Debt financing ensures that the financier can recover funds if the membership defaults on the loan.

Economic conditions and regulatory changes can affect the start or completion of capital projects.

Chapter 9

Financial Auditor: Job Details

The term financial auditor is often used interchangeably with an accountant, but the two careers have notable differences. A financial auditor ensures that a company's financial statements are in good order and in compliance with generally accepted accounting principles (GAAP). Financial auditors and accountants perform similar tasks in terms of the review of financial data, but auditors are more focused on discovering fraud or error in corporate financial documents.

Key Takeaways

- A financial auditor is responsible for ensuring that a company's financial statements are in good order and in compliance with generally accepted accounting principles (GAAP).
- Though often grouped together, the role of an auditor and accountant have distinct differences.
- Financial auditors use analytical skills to assess a company's accounting and financial reports by testing the documentation of transactions that the company has provided.
- In addition to a bachelor's degree, a financial auditor must often hold a Certified Public Accountant (CPA) designation.
- Unlike corporate accountants, financial auditors do not reconcile accounts, nor do they make accounting entries for an organization. Instead, they provide the information necessary to correct errors and accounting fraud.

Financial Auditor Job Description

A financial auditor reviews a company's financial statements, documents, data, and accounting entries. Financial auditors gather information from a company's financial reporting systems, account balances, cash flow statements, income statements, balance sheets, tax returns, and internal control systems. The information is then reviewed and used to present all financial data relating to a specific organization in an accurate, fair manner, ensuring that no fraud or gross errors are present in the company.

Financial auditors speak with multiple departments, including low- and high-level management teams, accounting and finance personnel, and company executives in their pursuit of analytical data. These discussions focus on gaining an understanding of the company's purpose, operations, financial reporting systems, and known or perceived errors in its organizational systems. Financial auditors conduct interviews of key personnel to comprehend what accounting and finance tasks are taking place, and which tasks, policies, or procedures may need to be established or implemented more efficiently.

On a day-to-day basis, financial auditors use analytical skills to assess accounting and financial reports by testing the documentation of transactions that the company has provided. The analysis also includes observation of inventory and the processes used for managing inventory counts. Additionally, financial auditors review accounts receivable, invoices, vendor payments, and billing procedures to ensure compliance with accounting guidelines.

The information gathered from a financial auditor's analysis is used to develop recommendations and specific action items for the organization where an audit was performed. Financial auditors often suggest changes to internal controls and financial reporting procedures to enhance the company's efficiency, cost-effectiveness, and overall performance.

In some instances, they must attest to the information presented through the audit. This attestation represents a stamp of approval for the company's accounting procedures and financial reporting systems. However, financial auditors do not take responsibility for the company's accounting practices or discovered errors.

Unlike corporate or management accountants, financial auditors do not reconcile accounts, nor do they make accounting entries for an organization. Instead, they provide the information necessary to correct errors and accounting fraud to accounting or other finance personnel. They also do not implement changes to accounting or finance policies or procedures in a company.

Walk-Through Test (Audit)

What Is a Walk-Through Test?

A walk-through test is a procedure used during an audit of an entity's accounting system to gauge its reliability. A walk-through test traces a transaction step-by-step through the accounting system from its inception to the final disposition. However, walk-throughs aren't required for accountants but can be instrumental in addressing weaknesses and problems.

Key Takeaways

- Walk-through tests are audits of accounting systems that gauge reliability.
- These tests look to reveal deficiencies and material weaknesses in a company's accounting systems.
- Auditors doing the walk-through will watch the company's staff and analyzed documents created during the process to identify weak points.
- The American Institute of Certified Public Accountants (AICPA) recommends walk-through tests on an annual basis.

Understanding Walk-Through Tests

A walk-through test is only one of many tests performed by auditors during their evaluation of an organization's accounting controls and risk management measures. The test can reveal system deficiencies and material weaknesses that would need to be rectified by the organization as soon as possible.

In conducting a walk-through test, an auditor will study how a transaction is initiated and moves through a company or organization's accounting system to completion. This involves identifying how a transaction is authorized, recorded—manually, by automated means, or both—and then reported in the general ledger of the books. The auditor will want to know how controls for accuracy are applied at each step in the process and how follow-up steps are taken to improve controls.

A good walk-through test will also document the personnel involved in transaction entries in the accounting system. Checklists and flowcharts are helpful in conducting thorough walk-through tests. The American Institute of Certified Public Accountants (AICPA) recommends walk-through tests on an annual basis.

Walk-through tests don't have to be a formal process, as many small businesses will perform a walk-through test without keeping detailed records or assessing a company's accounting records. That is, the auditor will observe and make inquiries without requesting detailed documentation or reviewing the paperwork or paper trail of the

transaction.

Special Considerations

A walk-through test can be done by simply asking employee questions, although this isn't recommended. This is because an employee's description isn't always what happens in practice. The better method of a walk-through is actually observing employees—how they process transactions, etc. As well, actually analyzing paperwork and documents is a step further in analyzing the company's accounting process.

Example of a Walk-Through Test

A walk-through will look differently depending on the company and auditor, but broadly, the process should include a visual assessment of how the staff operates when recording a transaction. Next, the auditor will talk with anyone who handles the transaction and then review the documents related to the transaction. An auditor may also test the accounting controls if any are in place.

At the end of the walk-through, the auditor will outline the weaknesses in how the transaction was handled. The idea is that these weak points can then be corrected to improve a company's accounting system.

Internal Control Procedures Essential for Audits

Internal control procedures are essential to managing effectively for successful audits and positive business outcomes. If the records and books of your organization are not accurate and reliable, you will have to deal with those discrepancies at numerous fronts. Your business and sales projections will be inaccurate. The loopholes in policies may lead to malpractices within the organization etc.

Following internal controls can help carry out audits seamlessly and provide the basis for conducting business without hurdles on the accounting front:

Separation of Duties

In every organization, well-defined duties and responsibilities are an integral part of the policy framework. But sometimes there are too many grey areas. You need to split responsibilities for maintaining books, reporting insights, and auditing of the systems and processes. In order to make sure the accuracy and reliability of accounts that your organization maintains, you need ensure the separation of duties without compromising the quality of work.

Accounting System Access Controls

One of the most important aspects of internal control is access to accounting information. The information, if not secured and kept under a structured framework of authorization, will be prone to misuse. Remember, there is always a threat of black sheep in an organization, and if there is any chance of unauthorized access, you can get in trouble.

Thus, you need to make sure that electronic access is restricted, and auditors can access it through legitimate means for error identification.

Physical Audits of Assets

Keeping an account of physical assets is important, just as you need to keep a check on digital accounts. Physical audits mainly comprise a check on hand-held cash or any other asset which passes through the accounting system, e.g., inventory, tools, and office's on-premises materials. If there are any discrepancies in the digital and hand-counted cash, an audit of physical assets will lay it bare for the managers to perceive the threat.

Standardized Financial Documents

Financial documents need to be standardized. These may or may not include the invoices, receipts, internal materials purchases or supply, reports on travel expenses. You need to maintain consistency in all such documents that form a part of financial transactions. When you maintain a standardized format for all such documents, you will have the ease of reviewing and gaining insightful information from them.

There will be fewer chances of discrepancies in the documented books. If you fail to standardize all these documents, you will be highly likely to overlook and/or misinterpret important pieces of information in reviews and analyses.

Daily or Weekly Trail Balances

You need to get rid of a single entry accounting system if you are still stuck there. Adapting to the new double-entry accounting systems will reap multiple benefits for your organization. The first of these benefits is an increased level of reliability and a higher level of flexibility and in the management system.

The bookkeeping resource will be able to calculate and balance the trials on a weekly or daily basis to provide you insightful information pertinent to business operations.

Periodic Reconciliations in Accounting Systems

As a business organization, you are not only dealing with your own accounts. You need to reconcile the accounting balance of your company's accounts with other entities that you are dealing with. This includes a regular comparison of deposit records and cash balances and a comparison of receipts for transactions between a banking system and your company's accounting system.

Approvals from Authorities

Some transactions are bigger than others and require you to put another layer of scrutiny before going ahead with them. You can designate some managers with this responsibility to approve of a certain kind of transaction so as to keep a check on the black sheep of your organization if any.

Chapter 10

Insurance Policies for Arizona

Workers' Compensation Insurance

This insurance helps protect your business if an employee is injured, contracts an illness, or dies as a result of an incident on the job. It can cover medical costs, legal fees, and lost wages due to the injury.

Property & Liability Insurance

Commonly referred to as a business owner's policy (BOP), it combines general liability insurance with coverage for your company's property. You'll get protection for the building you own, space you lease, and any property needed to run your business, while also receiving coverage for things like business interruption. This can replace lost income, as well as cover other costs associated with getting your business back up and running, such as the use of a temporary location.

Professional Liability Insurance

Also known as errors and omissions (**E&O**) insurance, this policy could protect you from the cost of damages and legal fees when someone claims your professional service caused financial harm to them or their business. Coverage includes both mistakes on the part of your business (errors) and the failure to perform a service (omissions). Professional liability insurance should be considered if your business provides professional advice, offers a professional service, or has contractual requirements for the coverage.

General Liability Insurance

Also known as commercial liability insurance, a general liability policy is important, because general contractors and landlords often require a policy before they hire you. The policy covers damages and legal costs associated with injury claims to customers and other people you don't employ, damage to other people's property that was caused by your business, and medical costs associated with these incidents. It also covers libel, slander, and copyright infringement.

Umbrella Insurance

Every insurance policy you purchase has a maximum value that it will cover in the event of an incident. Umbrella insurance adds another layer of protection: it can cover costs that exceed the limit of another policy, subject to its own limit. Without it, you may be responsible for anything over your policy limit. Business liability suits can easily exceed the actual value of many small businesses, so we highly recommend an umbrella policy to protect your company.

Commercial Auto Insurance

If your company owns or leases vehicles, this policy protects the vehicles and drivers from any damage incurred during the course of business. Our commercial auto insurance policies are offered through a Berkshire Hathaway subsidiary.

Cyber Insurance

This coverage can be purchased as an add-on to a general liability, professional liability, or BOP policy. It helps cover costs related to system hacks or data security breaches in which sensitive information has been stolen and fraud has occurred or there is a reasonable expectation that it might occur.

What is General Liability Insurance?

If you want to ensure that your small business has financial protection from unforeseen claims, general liability insurance is a smart investment. While it's not always required by law, it may be required by certain contracts or lease arrangements. With a general liability policy it's easy to get protection from the costs of:

Property Damage

When customer property is damaged by an employee, your coverage may pay for a replacement. For example: Your contractor accidentally sets fire to a building they are working in, and repair costs will exceed $150,000. Now, you may be liable to pay for the damages and construction costs. With small business general liability insurance, you would likely have help covering the costs of those damages.

Bodily Injury

If someone other than an employee is injured on your property, this coverage can take care of medical expenses plus legal expenses and damages.

Product Liability

If products developed or sold by your business harm people or property, this coverage can pay legal expenses associated with product liability lawsuits and medical expenses if an injury occurs.

Libel, Slander, and Copyright

This coverage can pay for lawsuit expenses from personal and advertising injury. Advertising injury can include disparaging another business in your advertisements, stealing an advertising idea, and more.

Chapter 11

501(c)(3) Organization

Section 501(c)(3) is a portion of the U.S. Internal Revenue Code (IRC) and a specific tax category for nonprofit organizations. Organizations that meet Section 501(c)(3) requirements are exempt from federal income tax. While the Internal Revenue Service (IRS) recognizes more than 30 types of nonprofit organizations, organizations that qualify as 501(c)(3) organizations are unique because donations to these organizations are tax-deductible for donors.

Key Takeaways

- Section 501(c)(3) is a portion of the U.S. Internal Revenue Code (IRC) and a specific tax category for nonprofit organizations.
- Organizations that meet the requirements of Section 501(c)(3) are exempt from federal income tax.
- While the Internal Revenue Service (IRS) recognizes more than 30 types of nonprofit organizations, organizations that qualify as 501(c)(3) organizations are unique because donations to these organizations are tax-deductible for donors.
- 501(c)(3) organizations must pay their employees fair market value wages.
- To receive its favorable tax treatment, the non-profit organization must not deviate from its purpose or mission.

In general, there are three categories of organizations that may be eligible for the tax category outlined in Section 501(c)(3) of the IRC: charitable organizations, churches and religious organizations, and private foundations. The rules outlined in Section 501(c)(3) are regulated by the U.S. Department of Treasury through the Internal Revenue Service (IRS).

How a 501(c)(3) Organization Works

To be considered a charitable organization by the IRS, an organization must operate exclusively for one of these purposes: charitable, religious, educational, scientific, literary, testing for public safety, fostering national or international amateur sports competition, and preventing cruelty to children or animals.

Furthermore, the IRS defines "charitable" activities as relief of the poor, the distressed, or the underprivileged; advancement of religion; advancement of education or science; erecting or maintaining public buildings, monuments, or works; lessening the burdens of

government; lessening neighborhood tensions; eliminating prejudice and discrimination; defending human and civil rights secured by law and combating community deterioration and juvenile delinquency.

Requirements of a 501(c)(3) Organization

To be tax-exempt under Section 501(c)(3), an organization must not be serving any private interests, including the interests of the creator, the creator's family, shareholders of the organization, other designated individuals, or other persons controlled by private interests. None of the net earnings of the organization can be used to benefit any private shareholder or individual; all earnings must be used solely for the advancement of its charitable cause.

The 501(c)(3) organization is also forbidden from using its activities to influence legislation in a substantial way, including participating in any campaign activities the support or deny any particular political candidate. It is typically not permitted to engage in lobbying (except in instances when its expenditures are below a certain amount).

People employed by the organization must be paid solely based on the fair market value that the job function requires, with no expectation of bonuses or compensation.

Once an organization is categorized as a 501(c)(3), the designation remains as long as the organization exists.
To remain tax-exempt under Section 501(c)(3), an organization is also required to remain true to its founding purpose. If an organization has previously reported to the IRS that its mission is to help less privileged individuals gain access to a college education, it must maintain this purpose. If it decides to engage in another calling—for example, sending relief to displaced families in poverty-stricken countries—the 501(c)(3) organization has to first notify the IRS of its change of operations to prevent the loss of its tax-exempt status.

While some unrelated business income is allowed for a 501(c)(3) organization, the tax-exempt charity may not receive substantial income from unrelated business operations. This means that the majority of the firm’s efforts must go towards its exempt purpose as a non-profit organization. Any unrelated business from sales of merchandise or rental properties must be limited.

While organizations that meet the requirements of Section 501(c)(3) are exempt from federal income tax, they are required to withhold federal income tax from their

employees' paychecks. There are some exceptions to this withholding rule; for example, if the employee earns less than $100 in a calendar year.

Special Considerations

Organizations that meet the 501(c)(3) tax category requirements can be classified into two categories: public charities and private foundations. The main distinction between these two categories is how they get their financial support.

A public charity is a nonprofit organization that receives a substantial portion of its income or revenue from the general public or the government. At least one-third of its income must be received from the donations of the general public (including individuals, corporations, and other nonprofit organizations).

If an individual donates to an organization that is considered a public charity by the IRS, they may qualify for certain tax deductions as a donor that can help them lower their taxable income. Generally, donations to a tax-exempt, public charity under section 501(c)(3) are tax-deductible for an individual for up to 50% of their adjusted gross income (AGI).

Private Foundations

A private foundation is typically held by an individual, family, or corporation, and obtains most of its income from a small group of donors. Private foundations are subject to stricter rules and regulations than public charities. All 501(c)(3) organizations are automatically classified as private foundations unless they can prove they meet the IRS standards to be considered a public charity. The deductibility of contributions to a private foundation is more limited than donations for a public charity.[4]

To apply for tax-exempt status under section 501(c)(3), most nonprofit organizations are required to file Form 1023 or Form 1023-EZ within 27 months from their date of incorporation. The charitable organization must include its article of incorporation and provide documents that prove that the organization is only operating for exempt purposes.

However, not all organizations that qualify for the tax category need to submit Form 1023. For example, public charities that earn less than $5,000 in revenue per year are exempt from filing this form. Even though it is not required, they may still choose to file

the form to ensure that donations made to their organization will be tax-deductible for donors.

Advantages and Disadvantages of a 501(c)(3) Organization

The 501(c)(3) status offers a myriad of benefits to the designated organizations and the people they serve. For example, 501(c)(3) organizations are exempt from paying federal income and unemployment taxes, and patrons who donate to them are allowed to claim a tax deduction for their contributions.

To help with funding and further their mission, these organizations are eligible to receive government and private grants.[8] To qualify, the organization must have a need for and a mission aligned to the purpose of the grant.

In addition, 501(c)(3) organizations often receive discounts from retailers, free advertising by way of public service announcements, and food and supplies from other non-profit organizations designed to help in times of need.[9]

A 501(c)(3) could be the lifelong dream of its founder; however, once established as a 501(c)(3), it no longer belongs to its founder. Rather, it is a mission-oriented organization, belonging to the public. To maintain its favorable tax treatment, it must operate within the confines of the law pertaining to 501(c)(3) organizations.

Because the organization serves the public, it must operate with full transparency. Therefore, their finances, including salaries, are available to the public and subject to their review.

Pros

- **Exempt from federal taxes**
- **Contributions are tax deductible**
- **Eligible for government and private grants**

Cons

- **Does not belong to those who created it**
- **Restricted to specific operations to receive tax exemptions**
- **All finances are accessible by the public**

What is a 501(c)(19)?

Section 501(c)(19) refers to tax-exempt organizations that specifically benefit veterans of the US Armed Forces. That means the work of 501(c)(19) nonprofit organizations must focus solely on making life better for veterans or current members of the Army, Marine Corps, Air Force, Navy, Space Force, or Coast Guard.

501(c)(3) vs 501(c)(19): What's the Difference?

Let's dig into the difference between 501(c)(3), perhaps the most well-known tax exemption status, and 501(c)(19).

501(c)(3) refers specifically to public charities, private foundations, or private operating foundations. Donations to most 501(c)(3) organizations are deductible for federal tax purposes. Many states allow 501(c)(3) to be exempt from sales tax on purchases and exempt from property taxes.

501(c)(19) veterans' organizations also have the benefit of allowing their donors to deduct their charitable contributions on their federal income tax returns. However, at least 75% of the organization's membership has to be made up of war veterans. The IRS defines "war veterans" as "persons, whether or not present members of the United States Armed Forces, who have served in the United States Armed Forces during a period of war."

The biggest difference, then, is the specific group the organization serves. While 501(c)(3) organizations might serve some veterans, their main goal usually isn't to serve *only* veterans. That's where 501(c)(19) organizations come in!

Types of Organizations Exempt Under Section 501(c)(19)

As mentioned above, in order to qualify for 501(c)(19) exemption status, an organization must attempt to make life better for veterans. But the IRS does get a little more specific about the types of organizations that count under this exemption status:

- a post or organization of past or present members of the US Armed Forces
- an auxiliary unit or society of such post or organization
- a trust or foundation that benefits the post or organization

The IRS gets even more specific about the activities of these organizations, which must be in operation specifically to serve one or more of these purposes:

- Support the overall welfare of veterans.
- Assist disabled veterans and current members of the US Armed forces and their dependents.
- Assist the widows and/or orphans of deceased veterans.
- Provide care (including entertainment!) to hospitalized veterans or members of the US Armed Forces.
- Create and run programs to uphold the memory of deceased veterans and comfort their survivors.
- Sponsor or assist with activities of a "patriotic nature."
- Provide insurance benefits for members of the organization and/or their dependents.
- Provide recreational activities for members of the organization.

501(c)(19) Filing Requirements

The IRS does specify several requirements in order for an organization to be given 501(c)19) tax exemption status.

Here are the main requirements each organization must adhere to:

1. The organization must be organized in the United States.
2. The membership makeup has to be as follows:
    i. At least 75% of members must be past or present members of the US Armed forces.
    ii. Otherwise, members should be cadets (in this case, meaning only students in college or university ROTC programs or at Armed Services academies) or spouses, widows, widowers, relatives, or lineal descendants of veterans.
    iii. These two groups (past or present members of the Armed Forces and cadets and spouses/relatives) should make up 97.5% of the organization's total membership.
3. The organization's activities must adhere to the list given in the previous section of this guide. Things like promoting the welfare of its members, assisting disabled war veterans, and sponsoring and participating in patriotic events.
4. No part of the organization's net earnings can benefit any private shareholder or individual.

Chapter 12

AMERICAN LEGION TAX EXEMPTION STATUS

The American Legion is tax-exempt under Section 501(c)(19) of the Internal Revenue Code of 1954 as amended. Our Group Exemption Number (GEN) is 0925.

Employer Identification Number (EIN)

Every Post shall have an Employer Identification Number (EIN) from the IRS. It does not matter if the Post has no employees. Federal Tax Regulations require that every organization required to file an Annual Information Return (Form 990) is required to have an EIN.

"Responsible Party" Reporting Requirement – IMPORTANT!

Whenever there is a change of address or change in the person responsible for completing the posts annual filing (IRS Form 990), the new person must file an IRS Form 8822-B. This is like a "Change of Address" form. What the IRS wants to know is the NAME of the "RESPONSIBLE PARTY." A post needs to file within 60 days of whenever your Responsible Party changes. The form is available online.

Annual Filing Requirement

Federal Regulations now require every American Legion Post to file an annual information return with the IRS.
Before the 2007 tax year, Posts with gross receipts of $25,000 or less were not required to submit informational returns. With the enactment of the Pension Protection Act of 2006 (PPA), Posts are now required to submit an annual return.

- For the 2007-2009 tax years, Posts with gross receipts normally less than $25,000 could file a Form 990-N "Electronic Notice (e-Postcard) for Tax-Exempt Organizations Not Required to File Form 900 or 990-EZ.". The first e-Postcards were due in calendar year 2008. The IRS offers free electronic submission of the e-Postcard.

- Beginning with the 2010 tax year, Posts with gross receipts normally less than $50,000 can now use Form 990-N.
- Posts with gross receipts less than $200,000 and total assets less than $500,000 can use Form 990-EZ or Form 990.
- If gross receipts are greater than $200,000 or total assets are greater than $500,000, the Post must use Form 990.
- If the Post is subject to Unrelated Business Income Tax (UBIT), the tax-exempt organization must also submit Form 900-T and pay the appropriate taxes.

IRS regulations change frequently. The American Legion strongly recommends you consult a tax professional before submitting your annual returns. Do not use the information provided here as the sole basis for determining which forms your Post is required to file.

Deadlines

Form 990-N, 990-EZ, and 990 must be filed by the 15th day of the 5th month after the end of the Post's annual accounting period.

- Penalties for Late Filings
- If a Post files its Form 990 after the due date (including any extensions), and the Post does not provide reasonable cause for filing late, the Internal Revenue Service will impose a penalty of $20 per day for each day the return is late. The maximum penalty is $10,000, or 5 percent of the Post's gross receipts, whichever is less. The penalty increases to $100 per day, up to a maximum of $50,000, for a Post whose gross receipts exceed $1,000,000.
- For Posts required only to complete the e-Postcard (Form 990-N), if the Post does not file its e-Postcard on time, the IRS will send you a reminder notice. There is no penalty assessment for late filing the e-Postcard, but an organization that fails to file required e-Postcards (or information returns – Forms 990 or 990-EZ) for three consecutive years will automatically lose its tax-exempt status.

Loss of Tax-Exempt Status

A Post that fails to file the required informational return (Form 990-N, Form 990-EZ, or Form 990) for three consecutive tax years will automatically lose its tax-exempt status. The revocation of an organization's tax-exempt status will not take place until the filing due date of the third year.

Reinstatement Procedures

For the Post to have its tax-exempt status reinstated, it must apply (or reapply) for tax-exempt status using IRS Form 1024, Application for Recognition from Exemption. The Post must also submit IRS Form 8718, User Fee for Exempt Organization Determination Letter Request, and pay the appropriate fee. For Posts with annual gross receipts less than $10,000 during the preceding four years, the fee is $600. For Posts with annual gross receipts greater than $10,000 during the preceding four years, the fee is $850.

Incomplete Returns

The IRS treats an incomplete return the same as a return filed late – the penalties are the same. For example, if a Post fails to attach a required schedule to its annual return – one of the most common errors in filing Forms 990 and 990-EZ – its return is considered incomplete and filing penalties may apply.

Unrelated Business Income Tax (UBIT)

Even though The American Legion is recognized as tax-exempt, the Post still may be liable for tax on its unrelated business income. For most organizations, unrelated business income is income from a trade or business, regularly carried on, that is not substantially related to the charitable, educational, or other purposes that is the basis of the organization's exemption. A Post that has $1,000 or more of gross income from an unrelated business must file Form 990-T. A Post must pay estimated tax if it expects its tax for the year to be $500 or more. The obligation to file Form 990-T is in addition to the obligation to file the annual information return, Form 990-N, Form 990-EZ or Form 990.

If your Post operates a bar or dining facility or rents its facilities to non-members, you may be subject to UBIT. Form 990-T, “Exempt Organization Business Income Tax Return”, must be filed by the 15th day of the 5th month after the tax year ends. For additional information, see the Form 990-T instructions or IRS Publication 598, Tax on Unrelated Business Income of Exempt Organizations.

Contributions to Veterans’ Organizations

Contributions to a 501(c)(19) Veterans’ Organizations are deductible under Internal Revenue Code 107(c)(3). To be eligible to receive tax-deductible contributions under IRC 170(c)(3), at least 90% of the members must be war veterans.

Payroll Taxes

Every employer, including a tax-exempt organization, who pays wages to employees is responsible for withholding, depositing, paying, and reporting federal income tax, social security taxes (FICA), and federal unemployment tax (FUTA) for such wage payments. The employer is also responsible for state tax withholdings and unemployment taxes.

IRS Determination Letter

On occasion, your Post may be required to provide proof of your tax-exempt status. If the Post does not already have a copy on file, it can request a copy of the IRS Determination Letter from the National Organization. The Post will receive a letter explaining the tax-exempt status of The American Legion and copies of the IRS letters granting tax-exempt status to The American Legion and copies of the IRS group rulings. To obtain copies, contact the office of the National Judge Advocate at (317) 360-1224.

Sales Tax

The American Legion is tax-exempt under Section 501(c)(19) of the Internal Revenue Code of 1954 as amended. The American Legion is exempt from INCOME TAX unless there is income subject to Unrelated Business Income Tax (UBIT).

American Legion Auxiliary

The American Legion Auxiliary is tax-exempt under Section 501(c)(19) of the Internal Revenue Code of 1954 as amended. The Group Exemption Number (GEN) for the American Legion Auxiliary is 0964. The American Legion and the American Legion Auxiliary have different Group Exemption Numbers and are granted tax-exempt status separately. Auxiliary Units must have their own Employer Identification Number (EIN) and must file their own Form 990 with the IRS.

Sons of The American Legion & American Legion Riders

The Sons of The American Legion (SAL) and the American Legion Riders (ALR) are programs of The American Legion. The activities of the SAL and ALR are the activities of The American Legion Post. The SAL and ALR use the same EIN number as the Post and their activities must be reported on Form 990 submitted to the IRS by The American Legion Post.

Chapter 13

FINANCIAL REGULATIONS THAT SHOULD CONCERN A POST OR SUBSIDIARY ORGANIZATION

A post faces regulation from several organizations during its existence. There are some more important than others; The American Legion, The IRS – your Employee Identification Number (EIN), sometimes called a Tax Identification Number (TIN), and the Arizona State Government, Department of Revenue who issues your Certificate of Exemption or Department of State which makes your corporation legal in the State thru registration of your Post Corporation. Each member understands what the Post Charter is and that it is posted somewhere a member can see it, in your Post. That Charter is governed by the Constitution and By-Laws of The American Legion national organization. That Charter is supervised by the Department of Arizona under its Constitution and By-Laws.

The Internal Revenue Service (IRS) issues any legal entity, be it a partnership, trust, corporation whatever, they get an EIN. The different thing about an American Legion Post is that we are "Federally Chartered". The American Legion national organization has a blanket EIN number under which all the individual Post EINs must be listed annually. The national EIN is for a nonprofit, as must each Post be a nonprofit. As a nonprofit, we are tax-exempt as a 501(c)(19) war veterans' organization which is defined as:

- A post or organization of past or present members of the US Armed Forces
- An auxiliary unit or society of such post or organization
- Or a trust or foundation for such post or organization

Most individuals and corporations understand that a donation to a 501(c)(3) is tax-deductible Donations to war veterans' organizations 501(c)(19) are equally deductible as charitable contributions on the donor's federal income tax return. There is confusion about this, but IRS Code section 501(c) is clear.

Having all this background, let's look at the reality of what can happen!
An organization like your Post has a nonprofit Employee Identification Number (EIN). Each year your Post is REQUIRED to file an IRS 990 which is a nonprofit tax return. The 990 comes in a couple of different ways, a 990N for Posts with less than $50,000. in revenue, up to a full 990 which Posts with significant revenue must file. I would

suggest that every Post consult a CPA for answers on what and how to file. Your Post must file every year by the 15th day of the 5th month after the end of your financial year. What happens, if for any reason, a Post does not file a 990-tax return. I am Post XXX and I don't file my 2021 tax return. After 3 years of not receiving that tax return the IRS will revoke Post XXX EIN and therefore your Post nonprofit status. The IRS sends the Post a letter saying it is revoked which most Posts don't understand and therefore ignore. Even if your Post filed in 2019 and 2020, your nonprofit status will still be revoked.
Your EIN will go on a list titled "Automatic Revocations of Exemption List".

What effect does being on the "Automatic Revocations of Exemption List" create for your Post?

- Your nonprofit is no longer a 501(c) tax-exempt organization.
- Donations to your Post are no longer tax-deductible to the donor.
- Your Post is now considered a for-profit company and liable for federal corporate taxes and must file a Form 1120 US Corporate Tax Return.
- You may now have serious expensive consequences in your state and will be liable for Arizona State Sales Tax on all business transactions such as beverage and food sales as well as catering and hall rentals since 2016.

The ramifications for those Posts that are revoked are significant but probably the most significant is your Post is no longer an American Legion Post, in good standing, because it lost its nonprofit status. This could affect your Post significantly. Since the Post is no longer tax-exempt, donations to the Sons of the American Legion and American Legion Riders are no longer tax-deductible either.

How does a Post fix this?

To have your Post tax-exempt status reinstated you must file an application. On this form you may also ask for retroactive reinstatement, but it may require filing past tax returns. I strongly recommend the Post seek the advice of a tax professional before proceeding.

Want to find out if your Post EIN is revoked, go to the Automatic Revocation of Exemption List and put in your Post EIN and you will get the answer.
On the State of Arizona level, you have 2 things to be concerned about. The first is making sure your corporation is valid in the State. Every Post must, upon incorporation,

file for registration with the State of Arizona, Department of State as a Not for Profit. It will include your EIN on the form. Currently, the State does not check your EIN to see if is revoked. Once you are registered with the State of Arizona, each year you must file an annual report. To avoid late fees, get them done between January 1 and May 1 and if they are not done by the 4th Friday in September your Post Corporation will be automatically “Administratively Dissolved”. The Post will receive a notice but, in many cases, it is sent to the Register Agent who may or may not understand and ignores it.

Dissolution will create further issues for the Post.

Under Arizona Statute “a corporation administratively dissolved continues its corporate existence but may not conduct any affairs except that necessary to wind up and liquidate its affairs. Further under Arizona Statute “A director, officer, or agent of a corporation, purporting to act on behalf of the corporation, is personally liable for the debts, obligations, and the liabilities of the corporation arising from such action and incurred subsequent to the corporation’s administrative dissolution only if he or she has actual notice of the administrative dissolution at the time such action is taken; but such liability shall be terminated upon the ratification of such action by the corporation’s Board of Directors or members subsequent to the reinstatement of the corporation.”

Chapter 14

BUSINESS LOAN APPLICATION

(Date)

Re: Loan Application

In an effort to obtain a loan from your institution, the undersigned present(s) the following information as an application for an extension of credit. If you have any additional questions or need further information to supplement this application, please feel free to call the undersigned at your convenience.

Name of Business:	American Legion Post 100
Contact person:	Commander Smith
Address	Main Street
	Phoenix, AZ 85015
Phone:	(602) 555-5555 Ext.: ___________
Type of Organization:	Non-Profit Veterans Org
Nature/Line of Business:	Service to Veterans

Key Owners/Officers:

Name:	John Smith
Title:	Commander
Address:	Main Street
	Phoenix, AZ 85015
Phone:	(602) 555-0000 Ext.:___________

Length of time in business:	30 years
Time under current management:	2 years
Owner's cash or other equity invested:	$0.00

Current Loan Request

1. Amount of loan: $75,000.00

2. Type of loan: Term loan

3. Interest rate: 1.00%

4. Term:
    a. Beginning date: November 01, 2022
    b. Number of payments: 60

5. Repayment schedule: Monthly payments

Purpose of loan request: Remodeling of current facility
Source of repayment: General business earnings
Available collateral: Existing property ownership
Guarantor(s):

Borrowing History

Other Lender: Bank Address:
200 Main St
Phoenix, AZ 85015
Phone: (480) 555-5555

Date of loan: November 01, 2022
Amount borrowed: $0.00
Current balance: $0.00

Business Plan: Improve the existing facility.
Attached documents: Financial statements and Tax returns

References

Name: TAL Department of AZ
Address: 4701 N 19th Ave Ste 200
Phoenix, AZ 85008
Phone: (480) 555-0000
Relationship: Finance Officer

An attached Authorization Letter has been included to assist you with the verification process.

Applicant: American Legion Post 100

By: ________________________________
John Smith
Commander

VERIFICATION AUTHORIZATION

October 15, 2022

American Legion Post 100

To Whom It May Concern:

American Legion Post 100 ("the Applicant") has applied for a loan with TAL Department of AZ ("the Lender") on October 01, 2022. The Lender is authorized to obtain all information that it determines is necessary for consideration of the loan application. The information requested mayinclude credit history, bank deposits and other financial information.

In order to assist with this loan request, we ask for your cooperation in providing all requested information as soon as possible. Your prompt response will help us receive an answer regardingthe approval of the loan in a timely manner. In exchange for your efforts, we release you, your officers, directors, employees, and representatives from and agree to hold all of the above harmless against any and all claims, liabilities, lawsuits, damages, costs and expenses arising outof your cooperation.

A photocopy of this letter will be treated as an original copy and will provide you with all of the protection of the original.

Thank you for your cooperation.

Applicant:

American Legion Post 100

By: ______________________

John Orendorff
Dept of AZ Finance Officer

FINAL CHECKLIST FOR BUSINESS LOAN APPLICATION

American Legion Post 100
October 01, 2022

Make It Legal

______ The Application should be signed and dated by the Applicant.

______ The Authorization Letter should be signed and dated by the Applicant.

______ The guarantor(s) or co-signer(s) should also sign the application.

______ The originals of the Application and Authorization Letter should be forwarded to the bank or lending institution.

Copies

* A copy of the Application and Authorization Letter (if applicable) should be retained forAmerican Legion Post 100's records.

Other Information

* It is not necessary to have the documents notarized or witnessed.

Reasons to Update

* To change or update the information prior to submitting it to a lender.

Chapter 15

QUESTIONS AND ANSWERS

1. What is the primary difference between the Finance Officers job and what a bookkeeper does?

   ANSWER:
   a) The primary function of the FO is to look ahead. CFO must also **be able to understand past financial performance** to accurately predict the organization's financial future.
   b) A bookkeeper is responsible for keeping accurate financial records and creating financial reports.

2. What are the three fundamental financial statements and their purpose?

   ANSWER:
   a) *P & L* shows a Unit's financial performance over a period of time.
   b) *Balance Sheet* displays a Unit's total assets and how these assets are financed.
   c) *Cash Flow* is a financial statement that show all cash coming into a business unit from ongoing operations and all cash going out of the business unit to pay for business activities and investments.

3. What is a Chart of Accounts and why is it important to a business?

   ANSWER: Chart of Accounts is a listing of all accounts tracked by the business unit and how transactions are categorized. It determines what you want to track (record) and how it is to be organized.

4. What is a Budget and what is its purpose?

   ANSWER: A budget is an estimation of revenue and expenses over a given period of time. The purpose of a budget is to help manage the Post's finances.

5. What is Budgeting and name the three types of Budgets?

   ANSWER: Budgeting is the tactical implementation of a business unit's strategic plan. There are three types of budgets:

a) Operating budget – divided into categories such as revenues and non-salary expenses.
b) Capital budget – to allocate funds, control risk in decision-making, and
c) Cash budget – helps manage the unit's cash flow by assessing if additional capital is required, whether the un it needs to raise money, or if there is excess capital.

6. List three goals of the budgeting process and the importance of each at your Post

ANSWERS:
a) Aid in planning of operations.
b) Coordinates the activities of the Unit (Post).
c) Communicates plans to various managers.
d) Motivates managers to achieve budget goals.
e) Con troll activities.
f) Evaluate the performance of managers.

7. Define a Capital Project (characteristics)

ANSWERS:
a) Large in scale
b) High in cost
c) Considerable planning required.
d) Must be managed appropriately.

8. What is risk management and the 5 Steps of the Risk Management Process?

ANSWER: Risk Management is the act of identifying, evaluating, planning for, responding to threats to your business. The goal is to be prepared. Five Step Process includes:

a) Identification – list all events that could have a negative I impact on your Post.
b) Assessment – determine the likely of the event happening.
c) Mitigation – identify ways to reduce risk
d) Monitor – effectiveness of the Mitigation Plan and the occurrence of risk events.
e) Reporting – serves two key purposes
   i. helps analyze and evaluate the risk management plan
   ii. helps keep members engaged in mitigating risk by sharing progress made.

9. What do Financial Auditors do and not do?

   ANSWER: Auditors provide in formation necessary to correct errors and accounting fraud to the Finance Officer or other finance personnel. Auditors do not reconcile accounts. They do not make accounting entries for a business. They do not implement changes to accounts or finance policies or procedures.

10. Are American Legion Posts required to file Federal Income Tax and what IRS form is used for filing?

    ANSWER: YES! Federal tax regulations require every American Legion post to file IRS Form 990 (12 PAGES). This must be filed by the 15th day of the fifth month after the end of your organization's accounting period. For example, if your calendar year ends Dec. 31, the form is due May 15.

    The American Legion is tax-exempt under Section 501 (c)(19) of the Internal Revenue Code of 1954, as amended. Every post needs to obtain an **Employer Identification Number** (EIN) from the government to be listed as a tax-exempt charter of the Legion.