

TO: JANNEY PTA EXECUTIVE BOARD

FROM: 2008 JANNEY PTA AUDIT COMMITTEE
Terry Kush, Matthew Nicholson Beer, Vanessa Abbott

DATE: November 7, 2008

RE: COMMITTEE'S ANNUAL REPORT

This committee reviewed the financial reports for the period 7/1/07- 6/30/08 which were prepared and provided by the PTA treasurers for purposes of our work. We reviewed those reports and the supporting ledger detail provided for consistency of expense reporting, general format and presentation. We also identified particular items which may warrant further discussion and have included those in our report for your further consideration.

Overall, we see no significant problems or issues with the material presented. Our opinion is based on our collective experiences in business and financial management, accounting and auditing. This cannot be construed to be a complete assessment of the details of the financial and accounting practices of the Janney PTA but a review of the overall results of existing practices.

We do have some comments and recommendations based on items that came to our attention during our review of the reports presented to us. We present them here for your review and consideration.

OUR ASSIGNMENT

Our main assignment was to come up with a recommendation for a prudent level of financial reserves for the PTA to maintain, as well as a time path for reaching that level.

In addition, the PTA Executive Board requested recommendations on the following:

- Consistency between the approved budget as presented to the membership, on one hand, and its execution, on the other;
- Areas in which financial practices could benefit from the application of other financial best practices; and
- Suggested improvements in the PTA's financial risk management approach.

Each of these items is addressed in this report.

RESERVES – AMOUNT AND TIMING

How much reserve is appropriate for our particular organization? As of June 30, 2008, our PTA has a reserve of approximately \$250,000. We each feel that this amount of reserve is more than sufficient and can and should be reduced. However, we sought additional information to assist us in determining just what an appropriate level is for an organization such as ours. One article titled "CRITERIA FOR NONPROFITS' OPERATING RESERVES" by Thomas J. Raffa proved to be most applicable and helpful. This article provided results of a survey of 25 national non-profit associations' reserve amounts. "More than half surveyed maintained unrestricted reserves between one and 49 percent of current unrestricted expenditures. The median percentage of unrestricted expense is 31.1% for membership associations/societies." We can apply these percentages to our organization using the current year budgeted expenses of \$316,450. This calculation indicates a reserve figure for our organization somewhere between \$158,000 and \$105,000.

Several other factors can be considered in examining our reserve balance:

- The Janney PTA has a reliable donor base. Janney has an engaged parental community with enough means that should a sudden crisis arrive, we could raise additional funding if necessary.

- Our reserves are rarely tapped into and consistently grow.
- The PTA has reported a measure of fund raising "burnout" and a high level of unused funds is currently maintained.
- DCPS seems to be picking up more budgeted items than in the past.

Based on this information, the audit committee recommends a target reserve of \$150,000. This amount falls within a generally accepted range for non-profit organizations (per criteria noted above). It would be enough to fund, at any time, two salaried positions at an estimated \$50,000 each and another \$50,000 for unforeseen items. It is more than enough to cover fund raising shortfalls of as much as 30% (\$87,000 using our current year budgeted income of \$290,500) plus handle one unexpected large ticket item of \$50,000.

Even with concerns about the current economic environment, we feel that the reserve amount can be reduced without any negative impact on our ability to continue to support Janney and ensure that the school's outstanding programs are maintained.

On the question of a time path for reaching this lower level of reserves, the audit committee does not have a recommendation. Having large reserves presents no particular immediate problems. The PTA may act as it sees fit. Timing of the draw down may be guided by the method(s) chosen.

There are a variety of ways that the reserves could be drawn down, including:

- reducing the base student support fee for future years,
- reducing fund raising expectations and initiatives,
- making one-time investments in big-ticket items that would benefit the school for years to come,
- contributing to other DC public schools that lack the fund raising power of the Janney community, if permitted by the PTA bylaws.

One additional item to note is that drawing down our reserves by \$100,000 will reduce our annual interest income by \$1000 - \$2000.

CONSISTENCY BETWEEN THE APPROVED BUDGET AS PRESENTED TO MEMBERSHIP ON ONE HAND AND ITS EXECUTION ON THE OTHER HAND

We reviewed the itemized P&L report for proper categorization of expenses. Using the descriptions provided, we did not see any significant problems with reporting income or expense items in their proper or logical categories. The dollar amounts of individual entries seemed reasonable relative to the descriptions.

As a result of this review, we did identify some minor items that we highlight below along with recommendations for your consideration:

1. We incurred almost \$2,000 in credit card processing fees. If not already been done, we recommend a closer analysis of whether the income collected via credit cards is justified by this level of expense and whether the cost of accepting the credit cards could be reduced.
2. We paid almost \$300 in finance and past due charges related to a Capital One MasterCard. We assume this to be a PTA credit card. First, we recommend that procedures be put in place to avoid past due charges in the future. Assigning late fees to a separate line item might help to highlight any future issues. Secondly, ensure that documented procedures are in place for the use and security of any PTA credit card(s). Those procedures should be clear as to who has the card and/or the number, who is authorized to use the card, and any spending limits and conditions under which the card is to be used.

Finally, if not already in place, we recommend establishing guidelines for conditions or situations in which the budget should or would be amended. Simply because a line item is over or under budget may not warrant changing the budgeted amount.

RECOMMENDATIONS FOR IMPROVED FINANCIAL PRACTICES

We recommend that there be periodic (perhaps quarterly) reviews of the bank reconciliations and the bank statements by someone with no bookkeeping responsibilities or bank signature authority. There should also be a back-up trained on QuickBooks and bookkeeping procedures. Consider regular posting of the current balance sheet and ledger on-line for all to see at any time (with some personal info removed as deemed appropriate). This would further increase the transparency of the financial affairs of the PTA. It would also provide the current report information from the meetings for anyone unable to attend.

In conjunction with posting regular financial report, consider also posting information on why we need reserves and when and how we might use them. This would help to educate the parent population about the large balance sheet figures they will see and hopefully mitigate any negative impact on contributions and fund raising that could cause. Consider also adding a "reserves" line item in the equity section of the balance sheet.

SUGGESTED IMPROVEMENTS IN THE PTA'S FINANCIAL RISK MANAGEMENT APPROACH

Our observation here is that all of the PTA cash and CD accounts are with one financial institution. We recommend that the PTA confirm that our total amount on deposit with PNC Bank is fully insured. If it is not, consider moving some deposits into other institutions. This should also be evaluated again if deposits are close to the maximum coverage amount.

RECOMMENDATIONS FOR THIS COMMITTEE

The word "audit" implies more than we feel we were actually assigned this year. Audit would include looking at detailed transactions and actual documentation, which this committee did not do. However, we feel that having someone examine actual documentation and provide back up for transactions would be an important and appropriate responsibility to include in this committee's duties. A detailed level of examination would enhance internal controls and provide an added level of comfort for any one involved in the financial operations of the PTA. This would not be a complete audit by any means. "Review" would be a more appropriate word for what we envision for the future and what governed the work just concluded.

Consider using this committee throughout the year for performing periodic checks that could help strengthen internal controls over the PTA funds.

Given these comments, the Executive Board should review the purpose for this committee and identify its duties. Documenting those on-going duties and expectations would help future committees more clearly understand their assignments and ensure no duties are overlooked. Once the responsibilities have been identified, then we would also recommend changing the name from "audit committee" to something more accurate, perhaps "financial review committee".

We are happy to have served on this committee. We hope that the PTA Executive Board finds our input helpful.