

**MEMBERS COUNCIL
FINANCIAL REFERENCE MANUAL**

February 27, 2009

Scope and Purpose

The Planning Subcommittee of Members Council uses Program Based Budgeting to assure that Council budgets are meeting ASHRAE's Strategic Plan objectives. The review of budgets by the committees reporting to Members Council is to ensure that decisions on the committee budgets meet the needs of the committees assigned to the Council, while providing value to ASHRAE's members. This review includes planning, monitoring, and oversight.

Configuration

The Planning Subcommittee is made up of assigned members of the Council.

Responsibilities and Duties

Staff, through the Director of Members Services as the staff liaison to the Planning Subcommittee and the Planning Subcommittee Chair, is to prepare the annual budgets with input from the committees, and to present these budgets for review at the Planning Subcommittee meeting held at the Society Winter Conference to incorporate committee recommendations, and to negotiate budgets with the ASHRAE Executive Vice President based upon the overall ASHRAE budget. The budgets are then communicated to the Finance Committee, and ultimately the Board, for final approval at the Annual Conference for the following fiscal year beginning July 1.

The Planning Subcommittee Chair is to educate the reporting committee chairs on the budgeting process, timing and the ASHRAE accounting system. This Financial Reference Manual is to serve as a resource for the Council and its reporting committees.

The Budget Process and Schedule

The fiscal year budget becomes effective July 1 for the fiscal year July 1-June 30 and is approved by the Finance Committee and Board at the Annual Meeting just prior to July 1. Thus the 09/10 budget is approved at the Annual Meeting in June 2009, to become effective July 1, 2009. Thereafter, the budget remains fixed until July 1 of the following year when a new budget takes effect. The Council has the authority to reallocate up to 5% of the current budget, respective total expenses (less salaries, benefits and overhead). Transfer of funds to other Councils or to outside organizations must be approved by the Board of Directors. The budget planning schedule is as follows:

May – June: Training of incoming reporting committee chairs on program based budgeting, time line and reference manual.

Annual Conference: Committee meeting to review prior year budget, upcoming year budget and the succeeding year budget. Incoming reporting committee chairs to start planning for year they will be chair.

Fall Council Meeting (October): The planning process for the next fiscal year continues at the Fall Council Meeting. Each current year committee budget is reviewed by the Planning Subcommittee Chair and the Director of Member Services (actual numbers compared to budgeted numbers) and forecasts for the current year are adjusted. Each committee is directed to prepare its program based budget needs for the following year with the assistance of their

Staff Liaison. This process rests on program based budgeting (outlined in the attached manual from the Society Finance Committee) and a review of new and existing programs to determine which programs have priority and should be funded and on a comparison of actual vs. budget numbers, which lead to adjustments for the following year. The budgets of each committee are reviewed by the Planning Subcommittee Chair and Director of Member Services. Input from the Society Finance Committee is obtained and a preliminary Council Budget is produced.

The preliminary budget is submitted to the Society Finance Committee for review at the Winter Conference (January): The preliminary budget is reviewed by the Planning Subcommittee, and in light of committee actions and input from the Society Finance Committee during the Winter Conference, any needed adjustments are made. The Preliminary Council Budget is forwarded to the Council for consideration and approval.

During the Spring, the Director of Member Services reviews each committee budget with the respective committee staff liaisons (Managers) and a draft budget for the next year is prepared. This draft is provided to the Executive Vice President who reviews all Council budgets for consistent procedures and appropriate balance. At this point, budgets recommended by the Committees and Councils may be adjusted. The revised budgets are then submitted to the Finance Committee for review at its Spring meeting.

Annual Conference (June): The Finance Committee meets the Friday before the Annual Conference begins and recommends a final budget for the next Fiscal year. At this late date adjustments are few, if any, and would be taken to the Board by the Chair of Members Council. The Board approves the budget at the Annual Conference.

Overview of Members Council Budget: Revenues and Expenses

Program-Based Budgeting: Society uses program based budgeting to review new and existing programs to determine which programs will receive funding from the budget based upon availability of funds, value of meeting needs of Society and its priority. See attachment from the finance committee for further information. To get a clear overview of Members Council finances, financial statements are prepared monthly. These include budgeted revenues and expenses for the current fiscal year for each standing committee (Membership Promotion, Student Activities, YEA, Research Promotion, Honors & Awards, Admissions & Advancements, Chapter Technology Transfer, Conferences & Expositions and Regions Operations). The financials break out the Members Council budget into two parts:

- Non-programs, which cover the basic operation of the committees. This includes staff salaries and benefits, committee volunteer and staff travel, meeting expenses, postage, telephone, consultants, etc.
- Committee-Based programs. These are activities within committees that are tracked by separate accounting sub-codes so as to enable separate monitoring. Examples include: Distinguished Lecturers, Satellite Broadcast/Webcast, Annual Conference, Winter Conference, Specialty Conferences, Student Design Project, etc.

Monthly Financial Reports – reviewed by the Director of Member Services

The ASHRAE accounting system identifies each committee by number: Admissions & Advancement 201, Conferences & Expositions 203, Honors & Awards 204, Membership Promotion 206, Student Activities 207, YEA 208, Regions Operations 850, Chapter Technology Transfer 851, Research Promotion 703. The councils do not have separate budget sheets; the council total is simply the sum of the committee budgets. In addition, there is a 6-digit code attached to each committee: 000000 is for the committee base budget (without programs) and

xxxxxx is for the committee based programs. For example, 850001 is for CRC Travel. Most, but not all, committees have associated programs. The program and non-program sheets roll up to the total budget for each committee.

Each monthly financial report includes current month, year-to date (YTD) cumulative for the fiscal year through the current month, fiscal year budget and actual for the past three years, current year forecast, as well as draft (not yet approved) budgets for the next two years. Each report lists Revenues and Expenditures by budget line item. An explanation of the line items is given below in **Appendix B**.

Note that the Salaries and Payroll Taxes & Benefits lines are supplied by accounting staff and are not under the control of the committees. Typically the Travel Expenses (excl staff), Meetings & Seminars, and Programs require the closest scrutiny as these tend to be the largest items under the control of the committee.

Also note that each sheet includes a TOTAL EXPENSE BEFORE OVERHEAD line as well as an Allocation of Overhead that is assigned to each committee scaled to its overall staff size. These figures are automatically assigned. For example: the overhead is included in the conference registration fees. This was a decision by the BOD and EXCOM.

Before the Planning Subcommittee meetings, the following should be reviewed by each committee. The Director of Member Services and the Committee Staff Liaisons review these items each month and make adjustments as needed.

- Cumulative YTD actual vs. YTD budget through the current month – if these are significantly different, why?
- Forecast vs. budgeted for the current fiscal year. Again, if these are significantly different, why? If they are, then the forecast probably needs adjustment.
- Draft budget for the next fiscal year – is this consistent with the trends of the current and recent past years? If not, then any need budget adjustments are noted by staff.

Appendix G/A – Program-Based Budget

Program Based Budgeting ASHRAE Finance Committee

Introduction

In response to the Strategic Plan Directives, ASHRAE is clearly adopting aggressive strategies to improve member services, support our Sustainability Roadmap and Vision 2020 initiatives, expand our range of Educational and Certification programs and implement the policies outlined in ASHRAE's Strategies for a Global Environment. Many new programs will be initiated by committees for adoption by the Councils and by the Board. In order to support these, as well as our existing and ongoing programs, it is essential that we all provide appropriate fiscal oversight, to maintain the financial integrity of the Society.

The basic premise is that the cost of implementing programs will be balanced against resulting revenue and/or membership benefit on a long-term basis. While the Councils must retain responsibility for individual programs it is intended that the Society's Finance Committee provide the overall financial review. We propose to use **Program Based Budgeting** for that purpose.

We are requesting that each Council, and the committees reporting to them, adopt program based budgeting for all new programs from this point forward and, at the same time, provide a review and analysis of all current and ongoing programs. These should be included in the budget submissions for 2008-09 Finance Committee liaisons with the Councils are ready to assist your Fiscal Planning Sub Committee with this effort.

Definition

What is – **Program Based Budgeting**? It is the systematic analysis of both the overall cost and benefit of each of the programs that go to make up the budgets for the Councils.

Guidelines

Breakout analysis should be provided, separately, for each **existing** program in the budget when their annual expenses exceed \$25,000 and is optional for those exceeding \$10,000. Programs should not be broken out separately if their annual expenses are less than \$10,000. NOTE: Cindy Simmons already develops most of the financial data for each of these programs.

For all **new** programs over \$10,000 in annual expense, it is requested that the Council provide:

1. Description of the Program, Services or Products to Be Offered
2. Identification of the Goal(s), or Outcome(s) that will Result from implementation.
3. Benchmarks against which Progress Will Be Measured
4. Identification of Keys or Challenges to Success
5. Identification of both Fiscal and Benefit impact on other Councils, if any.
6. Market Analysis including Market Segmentation
7. Competitive Comparison including identification of Competitors with Strengths or Weaknesses if applicable.
8. Immediate Staff Support or Infrastructure Requirements
9. Activity Partners and Strategic Alliances, if applicable
10. Fiscal impact including staffing, infrastructure, marketing or material costs, as well as anticipated revenues, if any.

Note: All new programs over \$100,000 require prior approval of the Board of Directors

For all **existing** programs it is requested that the Council:

1. Reassess and provide a summary overview of their programs goals, costs and outreach.
2. Evaluate whether these programs are still effective and obtaining their objectives.

That may not be easy since many program initiatives become buried over time in the commonplace routine of "doing business." But we do need to identify all of the "incentives/entitlements" built into the

system (such as free meeting registrations or free member benefits and dues to certain members/groups) if for no other reason than to identify these member benefits.

Important Note: It is not intended that any program be adversely impacted simply because it shows a negative financial return. Many programs are offered as Member Benefits. Some good examples of this are:

- The Distinguished Lecturer Program. Currently we have around 44 DLs, 31 of whom provided 95 budgeted programs to chapters in 2006-07. The financial cost to the Society is around \$65,000 and we probably reach around 2500 or so members.
- Similarly, the 2007-2008 Satellite Broadcast Program is expected to cost around \$111,000 and may reach as many as 25,000 members.
- Member dues discounts, for developing countries, creates a loss in income of \$75 per member but allows growth in countries that cannot afford our dues and implements our Strategic Plan and our global purpose.
- For 2007-08 Winter Conference in New York we are underwriting the Welcome Party and Members Night Out for the amount of \$65,000 and anticipate around 550 members at the Welcome Party and 450 (probably the same) members at the Members Night Out.

The training of the grassroots chapter chairs (approximately 700 volunteers) at centralized meetings or at CRCs costs the Society approximately \$100,000 in transportation reimbursement expenses. However, this produces knowledgeable and effective chapter chairs, which helps ASHRAE retain its members and promote its products, programs and services.

Schedule

1. Draft two year budgets submitted by committees to councils by the Fall Finance committee meeting
2. Draft two year budgets submitted by councils to Finance prior to the Winter meeting
3. Final two year budgets submitted by councils to Finance by the Spring Finance Committee meeting
4. Minor changes to be submitted to Finance prior to the Annual meeting
5. Finance Committee submits the two year budget to the Board on Sunday at the Annual Conference

From these types of figures we can evaluate if these programs are meeting our goals and compare benefits.

Ultimately the Finance Committee proposes to develop an overall Business Model for the Society that will review all revenue sources and their potential for growth. It will also review all expenses and develop plans for cost control, if and where appropriate. We hope through these efforts that we can actually expand the range of services and benefits to all members.

Attachment A provides a Summary of all major 2007-08 **Program Budgets** currently under Members Council. It also includes **Non Program Budgets** (which are essentially the **Standing Committees reporting to Members Council**).

Attachment B new program initiation steps and submittal.

Gordon Holness Society Treasurer 7-3-07 (Revised 9-29-07)
(Revised for the Members Council Financial Manual 3-09)

Attachment A

Finance – Program Budgets for Members Council 2007-08

ASHRAE Members Council Program Budget Considerations 2007-08										
Budget	Overall Program	Winter Meeting	Annual Meeting	Booth Promo	Program Competition	Student Grants	ABET	Chapter Regional	Distinguished Lecturer	Satellite Broadcast
Total Revenues	1,078.8	683.5	385.3	0	0	0	0	0	10.0	0
Expenses	1,839.3	754.5	594.1	10.0	18.0	120.2	6.0	145.4	75.0	111.0
Surplus (Deficit)	(760.5)	(74.2)	(208.8)	(10.0)	(18.0)	(120.2)	(6.0)	(145.4)	(65.0)	(111.0)
FTE										

ASHRAE Members Council Non-Program Budget Considerations 2007-08										
Budget	Overall Non Program	Admissions Advancements	CTTC	Meetings Arrangements	Honors & Awards	Membership Promotion	Student Activities	Regions	YEA	Research Promotion
Total Revenues	6,116.3	0	0	0	6.8	6,099.5	0	10	0	1,900.0
Expenses	1,624.3	36.6	114.1	38.1	109.2	708.2	250.8	367.3	54.1	403.4
Surplus (Deficit)	4,512.0	(36.6)	(114.1)	(38.1)	(102.4)	5,391.3	(250.8)	(357.3)	(54.1)	1,496.6
FTE										

(*) Surplus/Deficit is on Revenues and Expenses Prior to Overhead

(#) FTE is Full Time Equivalent Staff Support

ATTACHMENT B

New ASHRAE Program Initiation Steps

1. Document the Idea & Evaluate

- Assign Project Leader & Team
- Document the Idea
- Perform Market Evaluation
- Perform Technical Evaluation
- Perform Financial / Business Evaluation
- Develop Schedule & Budget for Next Step
- Develop Rough Draft Business Plan

3. Plan the Project

- Project concept
- Way to produce it.
- Test concept - trials
- Develop target cost
- Risk management plan
- Prepare business plan

2. Present to Council or Higher Body for Approval to Go to Next Phase

- Does it fit the Strategic Plan?
- Value to members / competitive advantage
- Is there a market need?
- Required initiation & completion dates
- Does ASHRAE have the Technical Competency
- Technical risk or is it feasible
- Financial return vs. staff & volunteer time and cost
- What could kill the program? Aka Show Stoppers

4. Plan Approval by Higher Body

- Verify alignment with Strategic Plan
- Confirm market need
- No show stoppers
- All affected involved in planning
- Business case makes sense
- Verify we have technical resources needed
- Resources available

New ASHRAE Program Submittal		
1	Description of the Program, Services or Products to Be Offered	
2	Identification of the Goal(s), or Outcome(s) that will Result from implementation	
3	Benchmarks against which Progress Will Be Measured	
4	Identification of Keys or Challenges to Success	
5	Identification of both Fiscal and Benefit impact on other Councils, <u>if any</u> .	
6	Market Analysis including Market Segmentation	
7	Competitive Comparison including identification of Competitors with Strengths or Weaknesses if applicable	
8	Immediate Staff Support or Infrastructure Requirements	
9	Activity Partners and Strategic Alliances, if applicable	
10	Fiscal impact including staffing, infrastructure, marketing or material costs, as well as anticipated revenues, if any.	

Appendix G/B

Definitions of Individual Line Items on Statement of Revenues & Expenses –Members Council

- Line #31: Membership Dues-Earned – 2% of Dues allotted to Research Fund
- Line #35: Meeting and Seminar Income – from ASHRAE Winter & Annual and Specialty Conferences
- Line #38: Contribution Income – Research Fund contributions from Resource Promotion campaign
- Line #41.2: Contributions and Matching Gifts – Matching funds from the AHR Exposition. Match is to Research Fund contributions of the **previous** year with a \$1.5 Million floor
- Line #44: Investment Income & Reserve Transfers – transfers of Research Fund reserve investment income – currently set at 4%
- Line #52: Payroll Taxes, Benefits, Personnel Exp. –payroll tax, temporary help, personnel ads, health, disability, dental & life insurance, 401k matching, pension plan
- Line #61: Publication, Communication, Promotion Exp – printing, promotion , shipping and handling
- Line #64: Meetings & Conferences Expense –Annual/Winter and Specialty Conferences (extra room rental, AV equipment, extra refreshment and meals, etc.)
- Line #66: Travel Expense – all reimbursed travel expenses – Committee Travel, Annual/Winter and Specialty Conferences, Honors & Awards Winners, Technology Awards judging panel, Regional Travel (Chapter Visits, CRC, Regional Planning, Training),Council Fall & Spring Meetings.
- Line #68: Awards, Certificates, Logo, Cost of Goods Sold –costs for logo items, awards, certificates, PAOE awards
- Line #82: Office Expense and Dues & Subscriptions – supplies, stationery, brochures, forms, postage, printing, telephone (conference calls), dues (Jets, ABET,E-Week .)
- Line #84: Outside Services Expense – legal, , consultants, vendors
- Line #88: Other Expense – miscellaneous, sales tax, bank charges, credit card charges

Definitions of Individual Line Items on Statement of Financial Position – Comparative

Definitions of Assets

Line #1	<u>Cash & Cash Equivalents</u> – <i>Current Bank Accounts and Cash Assets</i>
Line #2	<u>Marketable Securities at Market Value</u> – <i>Investments at Fair Market Value</i>
Line #3	<u>Accounts Receivable</u> – <i>Unpaid invoices owed to ASHRAE for advertising, publication sales, government outreach, mailing lists or appeals' fees, credit card charges in transit, returned checks in transit</i>
Line #4	<u>Less: Allowance for Uncollectable Accounts</u> – <i>Allowance for bad debt (advertising)</i>
Line #5	<u>Miscellaneous Receivables & Deposits</u> – <i>Security deposits US Copyright office, postage meter and FedEx</i>
Line #6	<u>Inventory</u> – <i>logo items, pins, and all publications (Handbooks, standards, design guides, etc.)</i>
Line #7	<u>Prepaid Expense</u> – <i>Software maintenance and liability insurance paid for all year in advance. The costs of the HQ renovation will be in this category until occupancy, when the lump sum value will be distributed among several fixed asset accounts for depreciation (depending on asset life).</i>
Line #8	<u>Property and Equipment-Remaining Value</u> – <i>Building, land, and equipment value after depreciation. This includes software systems. The \$2.8M investment in AMS software is being depreciated over five years as portions go live; iWeb was added in 2006-07, eWeb in 2007-08.</i>
Line #9	<u>Due To (From) Other Funds</u> – <i>due to/from Foundation, College of Fellows, etc.</i>

Definitions of Liabilities

Line 11	<u>Accounts Payable & Accrued Expenses</u> – <i>payable due to vendors, accrued vacation, advertising commission payables, accrued research projects not yet paid, and accrued pension paid at the end of the year.</i>
Line 12	<u>Refundable Advances</u> – <i>Unshipped publication receipts, new member paid/not elected.</i>
Line 13	<u>Deferred Income</u> – <i>Expo advance, deferred dues, advanced payment on Special Projects</i>
Line 17	<u>Currency Exchange Adjustment</u> – <i>currency exchange associated with Research Canada assets.</i>

Definitions of Individual Line Items on Statement of Revenues & Expenses

Definitions of Revenues

Line #31	<u>Membership Dues Earned Income</u> – <i>recognized dues</i>
Line #32	<u>Publication Sales Income</u> – <i>Handbook print and CD's, print & non-print special publication products, returns, royalties, and downloadable products</i>
Line #34	<u>Advertising Income – Display</u> – <i>print ads for products in Journal & High Performing Buildings;</i>
Line #34	<u>Advertising Income – Classified</u> – <i>Journal and HPB ads that aren't product-related; job ads, for example</i>
Line #34	<u>Advertising Income – On-Line</u> – <i>ads on the ASHRAE website & in electronic newsletters</i>
Line #35.1	<u>Meeting & Seminar Income</u> – <i>registration fees for conferences & meetings; such as, Spring conference, triennial IAQ conference, Annual & Winter meeting</i>
Line #35.2	<u>Certification Registration</u> – <i>fees paid by applicants for taking certification exam</i>
Line #35.3	<u>Education Registration</u> – <i>fees paid for ALI products, such as eLearning, short courses, and Professional Development Seminars, self-directed learning, online courses.</i>
Line #37	<u>Special Project Income</u> – <i>funding/grants from outside sources designated for specific projects</i>

- Line #38 Contribution Income – General unrestricted donations from regular & Life members, Carrier Award, Distinguished Public Service Award, Education
- Line #41.1 AHR Exposition Income – ASHRAE’s share of IEC show rental fees; ASHRAE & ARI get 45.5% of the total royalty and ASHRAE receives 61% of that figure (or 27.5% of total rental fees).
- Line #41.2 Foundation Contribution –contributions from the Foundation for distinguished lecturers and ALL and contributions designated for research.
- Line #41.3 Expo Mexico Exposition Income – ASHRAE receives a fixed amount from IEC for this biennial show.
- Line #44 Reserve Transfers – General reserve transfers designated for specific expenditures (4% transferred annually from the Research Reserve Fund)
- Line #46 Miscellaneous Income – shipping/handling income, income from mail list rental, banners, logos, pins, copies, currency translation

Definitions of Expenses

- Line #51 Salary Expense - payroll
- Line #52 Payroll Taxes, Benefits, Personnel Exp. –payroll tax, temporary help, personnel ads, health, disability, dental & life insurance, 401k matching, pension plan
- Line #61 Publication, Communication, Promotion Exp – publication costs, promotion for Foundation, ASHRAE/CIBSE Conferences and scholarship
- Line #64 Meetings & Conferences Expense –Hotel, room rental, meals & entertainment, speaker fees, onsite bookstore, tech awards and Distinguished Lecturers for BOD, Ex Com, Washington office, Education, Councils, CRC’s and the winter & annual meetings
- Line #66 Travel Expense – all reimbursed travel expenses – annual/winter meeting and CRC/fall and spring for staff, members and BOD
- Line #68 Awards, Certif, Logo, Cost of Goods Sold –costs for logo items, award costs
- Line #71 Research Projects & Grants Expense – General Fund – Senior Student grants; Research Fund – research projects, grants-in-aid, new investigator award
- Line #73 Special Projects Expense – SP 96 Aircraft Indoor Air Quality (finished SP100 Users’ Manual & DOE Short Course)
- Line #76 Public Relations Expense – PR program
- Line #78 Occupancy & Insurance – liability insurance, storage rental, janitorial, repairs and maintenance, landscaping, trash pickup, utilities, property taxes
- Line #82 Office Expense and Organizational Dues– office supplies, postage, printing, telephone, dues & subscriptions for scholarship committee, renewal notices, winter and annual meetings, CRC’s, the Journal, the Handbook, International Standards, technical activities, IAQ research and education (SDL, PDS, short courses and in-company seminars), dues for National Engineers Week, CEES.
- Line #84 Outside Services Expense – legal, accounting, maintenance of leased equipment (computers, network, copiers), software maintenance
- Line #88 Other Expense – sales tax, credit card charges
- Line #88.1 Prepaid Expense (contra acct) – Month to month prepaid expenses; used to bring prepaid expenses (an asset) back to an accrual basis; a contra account is the opposite of a normal expense account.
- Line #89 Opportunity Fund – fund set aside for unbudgeted, new products/services for members
- Line #90 Depreciation Expense – Depreciation on real property owned by ASHRAE (building and equipment, AMS software)
- Line #91 Overhead Expenses – Overhead costs include all building related expenses, utilities etc. This also includes all administrative, staffing and marketing expenses related directly to internal business operations supporting the Board, Council or Committee.

Board Expenses – Board expenses include those of the Presidential, Presidential Ad Hoc, Ex Com, Board of Director and all committees reporting to the Board of Directors.
Allocation of Expenses – Such overhead expenses are allocated on salaries (typically a ratio of 1.3) assigned to the respective Board, council, or committee on a monthly basis, proportional to the assigned program or activity.

- Line #91.5 Headquarters Building Renewal Contributions – donations for HQ renovation
Line #92 Non-recurring Expenses – rental for temporary space; post retirement benefit.
Line #95 Investment Income – Reserves (net of exp) – income on our investments for the period; the change in fair market value, plus interest, minus expense for investment advisor. Includes actual income and unrealized gain.
Line #96 Transfer Reserves Portion Used Currently – this is what the BOD has voted that we can use from the reserves; offset to line 44.