

Girl Scouts Heart of New Jersey Finance Committee Board Report

COMMITTEE: Finance Committee

DATE: 4/7/2020

COMMITTEE / GROUP / INDIVIDUALS REPORTING: Princess Palmer, Chair

The Finance Committee convened via Conference Call on 4/6/2020 at 8:28pm.

Attendees:

Name	Position	Present
Princess Palmer	Chair & Board Second Vice Chair	In-person
Lori Grier	Treasurer	In-person
Tara Faquir	Volunteer	Excused
Shelly Masi	Volunteer	Excused
Michael Manley	Volunteer	In-person
Barbara Kocsis	Volunteer	In-person
Shana Dadlaney	Volunteer	In-person
Emil Menzies	Board	In-person
Natasha Hemmings	CEO	In-person
Dianna Beck-Clemens	Board Chair	In-person

Financial Review Q1 FY 2020:

(1) Review of FY 2020 Q1 Financials

Princess

The discussion started with an overview of the balance sheet activity from 9/30/2019 (per the draft audit report) to 12/31/2019. During this period, total assets decreased from \$9.8 million to \$9 million mainly due to the use of cash to fund operational activity during the first quarter of fiscal 2020. The decline in cash and cash equivalents of about \$777K during this period is reflective of the seasonality of the council's operations – the first and fourth quarters are net cash outflows with the second and third quarters are net cash inflows (cookie and fall product receipts and camp registrations). There was also discussion of various other balance sheet account variances during the period (i.e. inventory, prepaid expenses, property and equipment, deferred revenue and trade payables). Reference is made to the Financial Statement Review Memo for additional details.

The committee then transitioned to a discussion on the operational performance for 3-months ended December 31, 2019 (Q1 FY 2020) with both the prior year actual (Q1 FY 2019) and the seasonally adjusted budget:

- Council experienced a decline in its net assets of \$469K for Q1 FY 2020 which was an improvement compared to the previous year of \$853K. Revenues were higher than prior year by about \$455K due to new and recurring corporate and foundation awards (increase of \$146K; i.e. Victoria Foundation, Verizon, PSEG), a successful Fall Product Program due to the transition to a new vendor M2Media, (increase of \$135K) and higher interest and investment revenue (increase of \$182K; unrealized loss in Q1 FY 2019 vs. a realized gain in Q1 FY 2020). Retail sales also increased during this period by \$25K due to higher gross margins which is likely not reflective of actual performance since staff needs to perform a comprehensive analysis of inventory.
- Expenses for Q1 FY 2020 were higher than Q1 FY 2019 by about \$71K due to higher costs for salaries and payroll related expenses (staff wage increase and higher healthcare premiums) as well as temporary staffing resources to support the accounting department. Other expense variances include lower facility rental costs (decline of \$14K) due to the Volunteer Recognition event being held in Q1 FY 2019 whereas it's currently planned for Q4 FY 2020.
- The decline in net assets of \$469K for Q1 FY 2020 outperformed the seasonally adjusted budget for this quarter of \$823K due to major gains in fund development that were realized early in the fiscal year (increase of \$109K; i.e. Verizon, PSEG), growth in the Fall 2019 Product Program due to the M2Media vendor switch (increase of \$19K), strong returns on the investment portfolio (increase of \$65K) and lower expenses due to the combined impact of headcount variances and timing differences for certain expenses (financial aid and vehicle chartering camp related, accrued expenses for accounting/legal/professional fees, facility expenses for special events). There was also discussion of the pending adjustment to retail sales (increase of \$46K) due to the need to complete an in-depth analysis of the inventory account.

The committee then transitioned to a discussion of forward looking items that represent risk for the council for the remainder of FY 2020. These items included:

- *Fund Development* - About 40% of the fund development goal has been achieved as of the end of Q1 FY 2020 and there is an additional \$40K of grants that will be received Q2 FY 2020. Victoria Foundation also recently notified council that the \$85K grant for FY 2020 would be changed from donor restricted to general operating support in response to COVID-19. Revenues from Special Events of \$75K are expected to be realized in Q4 FY 2020 instead of Q2/Q3 FY 2020.
- *Net Product Sales Cookies* – Annual target of \$3.1 million may fall short of the annual budget by about \$200K due to halting of the booth sales as a result of the COVID-19 (run over 4 weeks, but only 1 week completed at time of shutdowns) as well as the impact of fewer girls selling cookies (14K girls FY 2019 vs. 12.5K girls in FY 2020). Gains experienced as a result of higher volumes sold through the Digital Cookie Platform and an increase in per girl average boxes sold will likely not offset these declines. Furthermore, Natasha commented that the cookie receipts pull scheduled for this week would be delayed as a result of troops raising concerns that the ACH pull would create an overdraft since they had been unable to hold their booth sales and/or deliver cookies. Council has been working with local medical providers who would donate cookies to their staff – this represents an opportunity to sell some the cookie inventory (example of Barnabas Foundation who would purchase cookies to give to all staff at their 11 hospitals). The anticipated FY 2020 Net Product Sales Cookies approximates \$2.9 million (\$1.6 million paper orders; \$991K Digital Platform; \$250K booth sales).

- *Summer Camp Revenue* – Annual target of \$1.1 million is at risk due to the unknown long term impact of the COVID-19 closures as well as pending decisions from the American Camp Association (ACA) that will impact our camps (council is a registered member of this national organization) and GSUSA. Absent COVID-19, the 2020 summer camp season was off to a strong start with 87% capacity at Oval; 52% capacity at DeWitt; and 88% capacity at Hoover. The registration for Hoover reflects a reduction in camper weeks due to an inability to secure a sufficient number of camp counselors to run at full capacity. Staff will make a decision about camp by May 15, 2020. While council can stem the camp loss by not hiring counselors and seasonal staff, there are fixed costs that will be incurred. Staff expressed their disappointment with the risk of hosting no camp in light of the strong registration numbers and all of the upfront planning.
- *Sale of Montclair Service Center* – originally expected to close early 2020 and follow-up is ongoing to secure an April 2020 sale. Staff is continuing to follow-up. If these efforts are unsuccessful, a second disbursement from the operating reserve may be needed.

(2) Payroll Protection Program Loan

Natasha

At the joint audit/finance committee meeting that immediately preceded the financial committee discussion, Bridget Harnett, audit partner with Sobel, provided an overview of the recent CARES Legislation and the Payroll Protection Loan. She indicated that this legislation was unique in that non-profits could now apply for small business loans (SBA). Entities would apply through their banking entity (TD Bank for GSHNJ) for loans up to 2.5 months of average payroll (includes a \$100K salary cap) at an interest rate of 0.5%. While the loan application for the CARES Legislation is just a few pages, she cautioned that banks have their own supplemental application and there were differing practices amongst the participating banks. She shared that she was working her non-profit clients on the calculations required to support the Payroll Protection Loan request and the need to certify that the organization is economically impacted by COVID-19. There is the opportunity for loan forgiveness if eligible (i.e. employees are retained, any layoff are within specified parameters, banking entity has to concur, etc.). Loan repayment would be over 2 years if not forgiven.

(3) CEO Update – Impact of COVID-19 Pandemic

Natasha

The CEO Update was mainly a continuation of the discussion on the Payroll Protection Loan – GSHNJ is the only council that has not yet applied for this loan. Staff recommended a loan amount of up to \$750K. This is based on their calculations of \$500K-\$600K for payroll over the 2.5 month period and \$225K under the Economic Injury Program Loan (cover expenses such as rent and utilities) that will be submitted at the same time. There was discussion of raising the loan amount up to \$1 million by the committee. Natasha also read the board resolution provided by GSUSA that would need board approval so that she could then move forward with submitting an application through TD Bank.

Other Matters

Noteworthy items from the joint audit/finance committee that preceded the finance committee meeting was regarding commentary shared by Bridget Hartnett, audit partner with Sobel, regarding heightened auditor focus on liquidity given newly adopted accounting standards that require disclosure in the audit report re: financial assets available to meet general expenditures over the next 12 months. She also mentioned past operational losses that could adversely impact their going concern assessment if losses are continuous.

- **RECOMMENDATIONS:** *The Finance Committee Approved the Financial Report for Q1 FY 2020 and reports can be posted to the Board site.*
- **MOTION to the BOARD:** *The Finance Committee recommends the approval of the Payroll Protection Program and Economic Injury Program Loan not to exceed \$750K.*
- **RATIONALE:** *Rationale for the Motion to the Board is based on the operational risks discussed by the committee (i.e. inability to meet FY 2020 fund development goal, possible cancellation of summer camp, and possible net loss on cookie sales).*
- **FINANCIAL IMPACTS:** *Inability to meet operating expenses (mainly payroll) due to COVID-19 program disruptions (mainly summer camp and cookies).*
- **OTHER IMPACTS:** *May need to drawdown operating reserves absent Payroll Protection Program and Economic Injury Program Loan.*
- **TIMELINE:** *Board will be urgently convened via email or telephonically to consider the motion.*