

The Finance Standards Guide for LCVPs F

*My entity's contribution to
strategy #5 of the A2020
roadmap!*



but why?

“To Ensure we (AIESEC) are 100% legal and sustainable in our operations at all levels.”

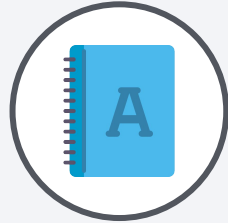
Concretely to:

- Align quality among different realities
- Easier education and collecting data
- Ensure legality, protect organization and customer
- Consolidate data
- Set expectations, ensure that minimum of operations is happening
- Ensure financial and legal sustainability of our organization





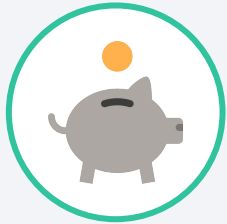
Legality



Accounting



Reporting



Budgeting



Auditing



Sustainability

We need standards to align quality amount different realities and to enable a sustainable growth.

There are **6 Finance Standards**

Fortunately most of them are an easy guess based on its name. Nevertheless, over the next few pages we're gonna explain what is each one of them and what does it mean for your as thee CFO of your entity.

If you read all of them carefully you will:

- Make your decisions more informed from a legal and sustainable point of view.
- Let's just say you will be able to call yourself a CFO ;)



Legality

What does it mean to be legal?

1

Operating and behaving according to the national law

-Using the right work permits for GT interns, reporting to fiscal authorities, signing contracts for our exchange partners and our EPs.

2

Operating and behaving according to the Global /National Compendium

-Fulfilling global membership criteria, having democratic elections for MC.

3

Ensuring we have external legal advice to protect our entities and the brand

-By having a probono lawyer, inhouse lawyer or a lawyer in the BoA.

Let's be honest

If **demonstrating integrity** is one of AIESEC Values, are we supposed to even need this slide? Unfortunately **WE DO** as being legal is still an issue in lots of entities.

Being legal means demonstrating integrity in everything we do, complying with the national law and with organizational guidelines and rules, and protecting the organizational brand and the integrity of the entity.



Why

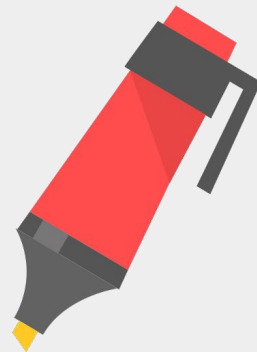
A legal organization ensures its **brand name & reputation** - AIESEC as a similar organization needs to ensure legal profile as well. Considering the products and the issues we cater we cannot take risks of sending our Exchange participants illegally.

- Compendium and constitution
- Legal representative inside the LC
- Global membership criteria
- Entity membership criteria (for LCs)
- Legal registration
- Tax status is defined

How does it help you with?

Think about what needs to be covered for external and also internal environment to ensure basic legality and governance integrity.

- Trademark registration
- Exchange contracts
- PD and sponsorships contracts
- Visas
- Professional legal advice





The **Legality** checklist for LCVP F!



Compendium and constitution

Every entity needs to have a compendium or constitution of the entity that fits the following descriptions (**only if you have a separate legal entity from the MC**):

- It needs to fulfill conditions of external law
- It needs to follow AIESEC Global Compendium
- It needs to be approved by national plenary

It needs to include the following contents (suggested structure):

1. Subject and goals of AIESEC activities
2. The election of Boards
3. Role of EB definition
4. Way of managing with finance and legalities
5. Entity membership criteria
6. Define who would be accountable for Finance and legal affairs



Legal representative inside the EB

Official document from competent authority which indicates who has power to represent the legal entity.

For internal global membership criteria: there needs to be a document signed by general assembly which confirms who was elected as president for the association (in LC and MC)

Must do

Ensure that all legal representatives understand the consequences of that role and have established expectations on how to act and react on different scenarios.

Have clear who can sign what, what needs to go through your MCP approval and what through you!



The **Legality** checklist for LCVP F!



Entity Membership Criteria (LCs)

Ensure you are fulfilling the National membership criteria for local committees in Compendium or Constitutions and have at least one legislative meeting during the year to review the fulfillment.



Legal Registration

This is only needed if you have a separate legal entity from the MC: registering a legal establishment in your country/territory



Tax Status is defined

This is only needed if you have a separate legal entity from the MC: Registration with the tax office according to external laws. All taxes paid as due.



Trademark Registration

This is only needed if you have a separate legal entity from the MC: you have an authorization letter from the MC to use their trademark

Must do

Understand the Entity Membership Criteria. Talk to the Entity MSC and understand your responsibilities as LCVP Finance during transition.

Make sure you have legal registration, tax status defined and trademark registration. This is only your responsibility. Make it a priority if you don't have it.



The **Legality** checklist for LCVP F!



Exchange contracts

Contracts must be signed for GT OPs, GV OPs, GE OPs, GT EPs, GV EPs, GE EPs. Contract must include:

- Subject of contract
- Price
- Details of the organization/EP
- Dates
- Signatures of both sides
- Alignment with national/international/local compendium



PD and sponsorship contracts

All sponsorships like in kind donations or YouthSpeak sponsorships should be in a contract, stating everything you do in exchange contract plus details of the partner.

Must do

As silly as it sounds - READ the exchange contracts - you will be asked by a lot of people to sign them so know what you commit and that they do!

Adjust if needed, check with lawyers or create them if you still don't have one!



The **Legality** checklist for LCVP F!



Visas

All international CEEDers must have a valid visa if the law doesn't say anything different.

Visas for EPs of all exchange products and Trainees must be compliant with external law.

For example: IGV interns should have a volunteering visa instead of a tourist visa in case the law of your country or territory requires it. Your international MC members or IGT interns, should have a work visa.



Professional legal advice

Ensuring we have external legal advice to protect our entities and the brand (e.g. by having a pro-bono lawyer or law firm, in-house lawyer or a lawyer in the BoA).

Must do

Coordinate checking the visas -you would be surprised how often immigration law changes!

Have a lawyer phone number in your cellphone, call him/her and introduce yourself. Hopefully you will never use it again, but in case you have a safe solution to jump into!



Accounting

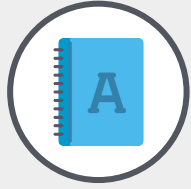
What is accounting?

- 1** It is the process of collecting, recording, classifying, interpreting and communicating financial information
- 2** It reveals profit or loss for a given period, and the value and nature of an organization's assets, liabilities and equity.
- 3** It shows overall wealth, profitability and liquidity (cash-flow).
- 4** It shows the resources available, how those resources are financed and the results achieved through using them.

The law is the law

Even though we live in digital age, the law is still the law. Please bear in mind, that receipts and invoices for purchases and sales need to be kept and the accounting records should match these physical receipts.

Without ensuring all of that is in place, you shouldn't be happy with the current state of your entity!



Why

AIESEC as any other organization needs to do accounting to collect information about operations to be able to evaluate financial status and performance for making decisions and to fulfil criteria set by law.

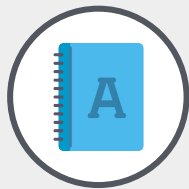
- Double entry bookkeeping system
- Accounting principles
- Alignment between accounting and budget
- Financial statements should be generated at least once per year

How does it help you with?

Way and principles needed to be followed in accounting/bookkeeping process.

- Requirements of accounting documents = documents which prove accounting transactions
- Archive all accounting documents physically or virtually
- Align your chart of accounts with GFB list of accounts





The **Accounting** checklist for LCVP F!



Double entry bookkeeping system

Each legal entity which is obliged by law to do accounting needs to have a proper bookkeeping system.

Entities who needn't to do accounting by law, they should do their own bookkeeping management and storage all the accounting documents.

Double entry bookkeeping system is based on the fact that every financial transaction has equal and opposite effects in at least two different accounts. It is used to satisfy the equation $\text{Assets} = \text{Liabilities} + \text{Equity}$, whereby each entry is recorded so as to maintain the relationship.

Basically, you not only look at the bank statement which is part of the assets, but you also look at who owns the money. So, then you classify receivables and liabilities.



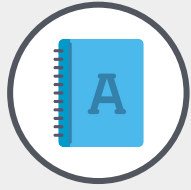
Align your chart of accounts with GFB list of accounts

In order to provide data for GFB survey, your accounts need to be aligned to the structure, which GFB provide.

Must do

If you still don't have one, get an accounting system as soon as possible. Even if you don't have money you can use Wave (for free) or Quickbooks (low fee).

If you have an accountant, talk to him/her as soon as possible to align your chart of accounts. It's super simple and it will make a difference!



The Accounting checklist for LCVP F!



Accounting principles

Accrual principle: Your transactions should be recorded in the period in which they actually occur, rather than the period in which the cash flows related to them occur.

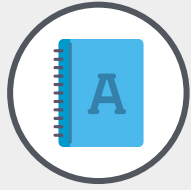
Consistency principle: Once an accounting principle or method is adopted, continue to follow it consistently in future accounting periods. Only change an accounting principle or method if the new version in some way improves reported financial results.

Cost principle: It is also known as the historical cost principle. The cost principle requires that assets be recorded at the cash amount (or its equivalent) at the time that an asset is acquired.

Economic entity principle: The transactions of a business should be kept separate from those of its owners and other businesses. This prevents intermingling of assets and liabilities among multiple entities, which can cause considerable difficulties when the financial statements of a fledgling business are first audited.

Full disclosure principle: You should include in an entity's financial statements all information that would affect a reader's understanding of those statements.

Going concern principle: The assumption is that a company or other entity will be able to continue operating for a period of time that is sufficient to carry out its commitments, obligations, objectives, and so on.



The **Accounting** checklist for LCVP F!



Accounting principles (Part 2)

Monetary unit principle: Record only business transactions that can be expressed in terms of a currency.

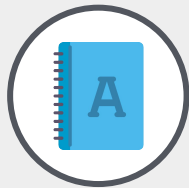
Reliability principle: You can record only transactions in the accounting system that you can verify with objective evidence (accounting document).

Revenue and costs recognition principle: The accounting guideline requiring that revenues (costs) be shown on the income statement in the period in which they are earned (spent), not in the period when the cash is collected.

Time period principle: You should report the financial results of its activities over a standard time period, which is usually monthly, quarterly, or annually.

Must do

Start recording your transactions! It's easier than you think. Approach GFB if you have any questions or concerns about any accounting principle!



The **Accounting** checklist for LCVP F!



Alignment between accounting and budget

Costs & revenues in real budget needs to be equal costs & revenues in accounting.



Financial statements should be generated at least once per year

Balance Sheet & Profit and Loss Statement



Requirements of accounting documents = documents which prove accounting transactions

- The identification number of the vendor.
- The amount to be paid.
- The date on which payment should be made.
- The accounts to be charged to record the liability.



Archive all accounting documents physically or virtually

Have these accounting documents according to national law, but no less than 5 years:

- A. Invoices created and received
- B. Reimbursement forms and all receipts,
- C. Bank statements,
- D. Cashbook (petty cash)
- E. List of transaction from the year,
- F. Balance Sheet & Profit and Loss Statement

Must do

Establish clear rules to your LCs and to your MC Team about reimbursements only with the corresponding document. It will take some time for people to get used to your rules, but it will be worth it!



Reporting

What is reporting?

- 1** Is providing organized information in the form of a document.
- 2** *Financial reporting* refers mainly to external financial statements (balance sheet, income statement, statement of cash-flows).
- 3** Other reports may be monthly, quarterly and annual reports (performance and financial) to the national plenary and AI.

Let's act sustainably

We do reporting so our stakeholders can easily understand the financial position and performance of AIESEC and our products so we can make data-driven decisions.

Only if you make sure that all finances are reported and you know the current state, you can say that you “act sustainably”.

Most of MC members will be out in 365 days and the least you can do for next team is ensure they have proper financial data to make informed decisions!



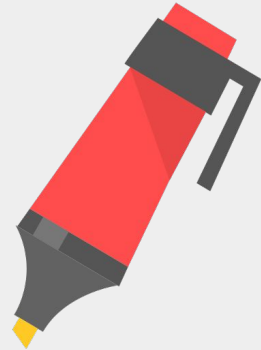
Why

Reporting is a tracking tool, which help us to check the current financial status and performance of the entity, keep the organisation accountable, ensure it is operating legally, and be transparent with how the organisation is using its resources.

- Monthly reporting of executed budget for incomes and expenses.
- Reporting Process
- All reports include structure of AIESEC International financial statements
- Storing the reports

How does it help you with?

How your reports and reporting process should look like.





The **Reporting** checklist for LCVP F!



Monthly Reporting of executed Budget for incomes and expenses

- LC reports to MC monthly on Budget execution (for Incomes and Expenses)
- LC VP F reports to LC EB monthly about the LC financial situation
- LC sends to MC all the physical documentation for cash and bank payments and invoices



Reporting Process to plenary of Budget

- LC EB Reports to local Plenary every quarter
- MC Reports to national Plenary every quarter
- Entity Fills the GFB Survey (with LC and MC data)

Must do

If you don't have them, create processes in place and make sure LCs are aware of them!

Set up the behavior for transparency!

Ensure reporting each month to the MC on Incomes and Expenses.



The **Reporting** checklist for LCVP F!



All reports includes structure of AIESEC International financial statements.

All the costs and revenues will be divided on internal and external to ensure that we can consolidate data and aligned to the consolidated chart of accounts based on the GFB Survey.



Storing the reports

All reports should be stored for at least 5 years

Must do

Make sure you prepare yourself on how to prepare the report that meets AIESEC International Financial Statements - so we can have similar reports by entities in order to unify them.

Make sure your MC, and your successors know where you store the reports.



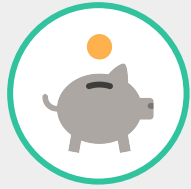
Budgeting

What is budgeting?

- 1** Is an action plan to achieve a set goal, expressed in values and financial terms that has to be achieved in a set time frame and under expected conditions.
- 2** Is the numeric translation of our action plan.
- 3** Enables:
 - Financial control of the organization.
 - Tracking of the organization's action plan.
 - Preventive or corrective role in the organization.

A tool to assess your performance

One thing is creating a budget, other thing is to actually open the file at least each month! Keep in mind that budget should not be an excel file which you once legislated (or not). It should be a tool to assess where are you with performance and what plan adjustments you need to take into consideration in order to run your entity.



Why

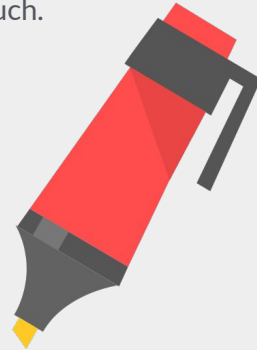
Budgeting makes sure we can sustainably achieve our plans, and keeps us accountable for it. Because without a budget you are like a pilot in the dark.

- All budgets are planned before the terms start with monthly structure.
- Exchange goals are translated into budget as income targets.
- Budget is approved by the board.
- Budget is updated at least once per month.
- Replanning of budget is done every quarter (MCs) and every semester (LCs).

How does it help you with?

How your budget and budgeting process should look like.

- Every project with turnover above of 50% of the LC budget or 20% of the MC budget needs to have a separate budget and be controlled as such.
- New customer flow is implemented.
- Budgets are planned in profit.
- Prices in the entity are aligned and reviewed every year.
- Calculation of MC Affiliation Fee is reviewed every year.





The **Budgeting** checklist for LCVP F!



All budgets are planned before the terms start with monthly structure.



Exchange goals are translated into budget as income targets.

Underestimate your revenue, don't take 100% rate of fulfillment on them.



Budget is approved by the board.

*Board are people responsible for the entity.



Budget is updated at least once per month.

There is a monthly closing for the execution of Incomes and Expenses.



Replanning of budget is done every quarter (MCs) and every semester (LCs).

This is to ensure that if incomes are not being met then the expenses are also cut to ensure we don't run into a loss



Every project with turnover above of 50% of the LC budget or 20% of the MC budget needs to have a separate budget and be controlled as such.

Conferences, for example.



New customer flow is implemented.

EPs for all exchange products pay on Approved



Budgets are planned in profit.



Prices in the entity are aligned and reviewed every year.



Auditing

What is an audit?

- 1** Systematic examination and verification of an organization's books of account, transaction records, other relevant documents, and physical inspection of inventory by auditors.
- 2** **The organization's management (VP F and/or P) role:** Prepares the financial report. It must be prepared in accordance with legal requirements and financial reporting standards.
- 3** **Auditors role:**
 - Examine the organization's information, identify and assess risks that can impact financial performance, and review internal controls.
 - They make a judgement as to whether the financial report as a whole presents a true and fair view of the financial results and position of the organization and its cash flows, and is in compliance with financial reporting standards.
 - Auditors prepare an audit report stating their opinion.

It's about transparency

No one likes to be controlled,
but if there is one good cause
it's this one!

A qualified independent
audit ensures we are
managing our financial
resources transparently as our
accounting matches our
activities reasonably.



Why

Audit gives us an objective verification that our accounting gives fair and honest view of our organization and that our financial and legal process fulfill standards and satisfaction in our operation.



Unqualified external audit



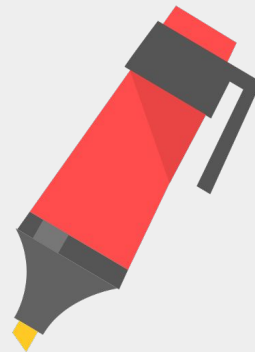
Financial internal audit



Legal internal auditing

How does it help you with?

Criteria which external or internal audit needs to fulfill.





The **Auditing** checklist for LCVP F!



Unqualified external audit (for MC)

Only needed if you run a separate legal entity from the MC. How often: Once per year, storage documents from audit at least for 5 years.

An external audit must be conducted every year to ensure proper financial management and minimize the potential for any risks to the AIESEC entity and AIESEC globally. A licensed external auditor must conduct the audit and the auditor's report must be unqualified.



Legal internal audit (for MC and LCs)

Once for MC and at least twice for LCs per year.

To make sure legal documents are implemented in all programs, such as contracts and acceptance notes, and that these documents are according to country and AIESEC's legislation. Additionally, it must measure if all legal documents are signed by the person who was the right to sign them in the entity and also that these documents are being stored.

Must do

These activities take time. Make sure you're actually including them in your planning and put them in your calendar. If you need help, ask for it but don't avoid auditing.

Audits are easier if in the start of the term you make sure all receipts and invoices are collected for every expense, don't try to collect them at the end of the period. For Legal audit is the same, make sure your LCs have a clear framework on how to collect, store and submit any document you might require for the legal audits.



The **Auditing** checklist for LCVP F!



Financial internal audit (for MC and LCs)

Once for MC and at least twice for LCs per year.

The auditor ensure that financial statements are being accomplished in each program. The following financial principles must be measured: Accountability, Financial Reportability, Financial Model.

Accountability and Financial Reportability must be measured for its existence, evaluation, accuracy and completeness.

Financial Model must be measured for its validity and implementation. These points should be evaluated:

- Pricing (considering in which stage of the Customer Flow entity must be charging),
- Budget
- Financial Funds
- Incomes and costs for each product
- Sponsorships contracts
- Conferences, HR Costs
- Taxes & Reimbursements

Must do

These activities take time. Make sure you're actually including them in your planning and put them in your calendar. If you need help, ask for it but don't avoid auditing.

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Sustainability

What is sustainability?

1

“Development that meets the needs of the present without compromising the ability of future generations to meet their own needs”

– Bruntland Report for the World Commission on Environment and Development (1992).

2

“Sustainability is managing the triple bottom line - a process by which companies manage their **financial, social and environmental** risks, obligations and opportunities. These three impacts are sometimes referred to as **profits, people and planet**”

– Financial Times.

Think in the future

Sounds complicated! But all you need to understand is that your products do not generate loss, you have good reserves, your income comes from exchange as a core product, and you utilize your money in the best way.

Simply put, sustainability is the ability to maintain a product and its benefits over time.

Check out next page for different levels so you know what to do one by one!



Why

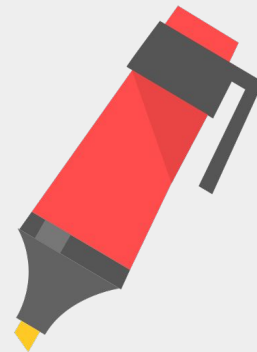
To ensure sustainability of the organization while running healthy and effective products.

- Sustainability level 1 (in MCs and LCs)
Price of product > direct costs
- Sustainability level 2 (in LCs)
Profit of product > direct + indirect costs
- Sustainability level 3 (MC-LC together)
Entity has a profit (consolidated)
- Sustainability level 4 (MC-LC together)
Main revenue driver is main focus product
- Core performance > 0.7
(Exchange income / total income) > 0.7
- Debt ratio
Total liabilities / total assets

How does it help you with?

Description how healthy and sustainable products or entities look like based on financial indicators.

- Months of Financial Reserves (MoFR)
- Liquidity
- Risk Assessment and Management
- Ensuring pipeline & fulfilling Team Standards
- All conferences are sustainable
- Education cycle for LCVPFs





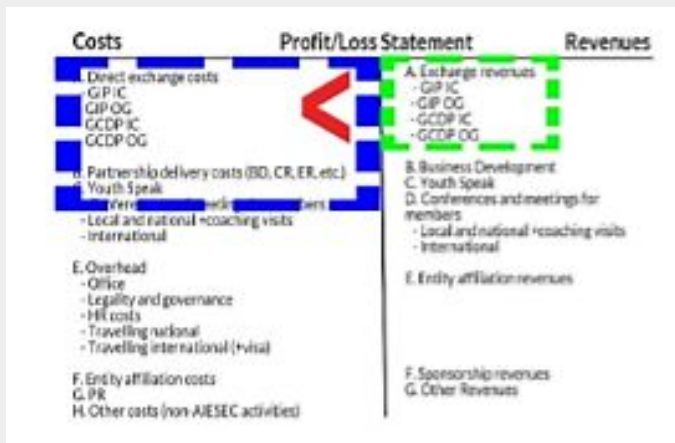
The Sustainability checklist for LCVP F!



Sustainability level 1 (in MCs and LCs)
Price of product > direct costs

Each X product and BD operations fulfill following requirement at LC and MC level (at each level, not consolidated):

- (Direct revenues of LCs/MC - direct costs LCs/MC) > 0 EUR

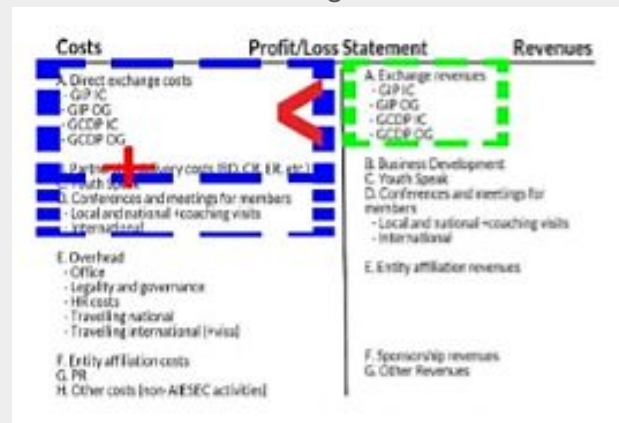


Sustainability level 2 (in LCs)
Profit of product > direct + indirect costs

Each X product and BD operations fulfill the following requirement at LC level:

- (Direct revenues of LCs - direct costs LCs - indirect costs LCs) > 0 EUR

*MCs should strive for the same, but they might need additional income due to greater indirect costs.





The Sustainability checklist for LCVP F!



Sustainability level 3 (MC-LC together)
Entity has a profit (consolidated)

Each X product and BD operations fulfill following requirement:

- (Direct revenues of LCs&MC - direct costs LCs&MC) > 0 EUR



Sustainability level 4 (in LCs)
Profit of product > direct + indirect costs

If OGV is your main revenue driver (cash cow) then allocate more HR to it so we can have more revenue,

How are your synergies working with TM?



Core performance > 0.7
(Exchange income / total income) > 0.7

Majority of our revenue come from exchange products.



Debt Ratio

Every quarter check your liquidity, the optimal values are mentioned below:

- Liabilities (short-term & long-term) / Current assets < 1
- Liabilities / Own equity < 3
- Equity > 0



The **Sustainability** checklist for LCVP F!



Months of Financial Reserves (MoFR)

Evaluate your financial sustainability according following formula:

- MoFR ≤ 0 - Critical financial situation
- $0 < \text{MoFR} < 3$ - Dangerous situation
- $3 < \text{MoFR} < 6$ - High risk
- $6 = \text{MoFR}$ - Optimal situation
- $6 < \text{MoFR}$ - Unnecessary reserves

when: Months of Finance reserves = Current equity / Average costs of 12 previous months.



All conferences are sustainable

- Your national and local conferences don't generate a loss.
- Conferences revenues don't depend on sales (unless their target is external).
- Have conference guidelines and reports for knowledge management and transition.



Liquidity

Every quarter check your liquidity, the optimal values are mentioned below:

- Cash (bank account + petty cash) / Short term liabilities $\Rightarrow 1$
- (Cash + short term liabilities) / Short term liabilities $> 1,3$ (shouldn't be higher than
- Current assets/Liabilities



Risk assessment and management

There is a Framework/tool where risks (integrity and security, finance, legal, reputation, future operations) are identified

- There is a matrix (Probability vs. impact)
- There are action steps (act, mitigate, avoid, transfer, ignore)



The **Sustainability** checklist for LCVP F!



Ensure Pipeline & Team Standards

- There are LCVP Finance that do not share other roles
- There are Finance Managers in expansions
- All LCVPs Finance fulfill the team standards with their teams.



Education cycles for LCVPs

- There is a Manual of Functions for LCVPs Finance.
- There is an education timeline for LCVPs Finance (that includes Team Standards and Finance Standards) performed in conferences and in virtual channels.
- There is coaching for LCVPFs (either by MC Finance or NSTs).
- There are visits or audits performed when needed

Must do

Start the conversations as soon as possible!

- AIESEC does 6 exchange products. There is plenty of choice to make sure that majority of your revenues comes from them (no less than 70%).
- 6 months of financial reserves is ideal - less is risky, more is waste. Where are you?
- Liquidity is a key! Assess it!
- Debt is not an option! Create a payment plan to be out of internal/external/AI debt ASAP.
- Make sure you know what are the risks which you might face and create a framework with the people responsible.



Key actions

- *Plan your education* timeline with the Finance standards education and *the team standards* for your entity and align internal processes
- Ensure we use an accounting system in our entity: **Wave** (free version) or **Quickbooks** (paid version. Or any other that you already use (NOT Google Sheets, not excel!))
- Implement the *unified chart of accounts*. So align your accounting with the GFB Codes to be ready for consolidation
- Use the GFB *Budget template* to align both accounting and financial reporting
- Do proper controlling of the execution of budget (not only from expense side but from incomes as well, measure your financial targets and if not met, adjust expenditure accordingly)