

## CHAT NOTES FROM DOMAIN 4 CHAT

### Domain 4 – Question 1 Explanation – answer is C – above 1.0

#### Why "Above 1.0" Indicates Sufficient Liquidity

- A ratio of **1.0** means current assets **exactly equal** current liabilities — the organization can just meet its short-term obligations if it converted all current assets to cash.
- A ratio **above 1.0** means **there are more current assets than current liabilities**, so the organization has a cushion and is considered **liquid** or **financially healthy** in the short term.
- If the ratio is **below 1.0**, it means liabilities exceed assets, suggesting potential difficulty paying obligations on time.

**Above 2.0:** While a ratio above 2.0 shows *strong* liquidity, it may actually indicate inefficiency — assets might not be used effectively.

- From the study guide (page 82 in my version) in determining the total reserves that are recommended: Managing the organization's financial reserves is an important piece of ensuring financial stability. Reserves, both liquid and total, appear as assets on the organization's statement of financial position and are the organization's total worth. Determining the ideal amount of reserves, either as a percentage of the annual budget or as the number of months of normal operations they would cover, depends on numerous factors including revenue diversification, program stability, competition, industry changes, and planned expenses. (ASAE Professional Practices in Association Management, 4th Edition, Chapter 22)

### Domain 4 – Question 2 Explanation – answer is A

- a) Create a policy to guide the investment of the dollars until they are used is correct because it reflects strong financial stewardship and prudent governance — the essential *first* step when receiving a large endowment gift.
- (d) Engage the board in strategic planning – Strategic planning is a wise next step, but it comes after establishing financial policies and parameters. The investment policy defines the resources available for future plans.

#### Domain 4 – Question 3 Explanation – answer is B

**a) Statement of activities:**

This shows **revenues and expenses** on an accrual basis (not cash). It reports *financial performance*, not actual cash flow, so it wouldn't show whether cash covered debt service.

**(b) Statement of cash flows** is correct because that's the section of the **annual independent audit report** that shows **how cash actually moved in and out of the organization** — including whether **cash generated from operations** was sufficient to cover **debt service payments**.

#### Question 5 Answer Explained – D is the answer

The question specifies that the **chief staff executive** is being asked to create a **dashboard of key financial indicators** — meaning measures that provide insight into the organization's **financial health, performance, and sustainability**.

So, the correct answer is the one that does **not** measure finances directly

**(a) Liquidity ratio - not correct, because...**

A key **financial health metric** showing the organization's ability to meet short-term obligations (current assets ÷ current liabilities).

#### Question 7 explanation further: at-will employment relationship – answer is C

The employer can terminate an employee at any time, with or without cause, and with or without notice, as long as the reason isn't illegal (e.g., discrimination or retaliation).

The employee likewise has the right to quit at any time, with or without cause, and without giving prior notice.

So, the defining feature is mutual flexibility — either party can end the employment relationship at any time.

#### Question 8 Clarity – answer is B

In a nonprofit or association, human resources management (HRM) duties are divided between the board of directors and the chief staff executive (CEO/executive director):

The board is responsible for governing, not managing day-to-day operations.

The chief staff executive manages staff and implements HR policies under the board's oversight.

However, there is one key HR function that belongs to the board: hiring, supervising, and evaluating the chief staff executive.

### **Question 13 explanation – answer is D**

Why the Other Options Are Not Subject to UBIT

(a) Volunteers selling merchandise:

If volunteers perform all the work, the IRS exempts this income from UBIT (the “volunteer exception”).

(b) Volunteers hosting an event:

Fundraising activities run primarily by volunteers are excluded from UBIT.

(c) Collecting daily parking fees:

If the garage is used regularly to support members, staff, or the organization’s operations, it can be considered related use — not necessarily “unrelated business.”

However, renting it out to the public for a festival (option d) shifts it into the realm of commercial activity unrelated to the exempt purpose.

From Laurel:

I have to jump to my next meeting. thank you for having me join! If you have any questions about the resources shared, please email me at [laurel.nava@cite.org](mailto:laurel.nava@cite.org)