Board Financial Training

* Asking Questions
* Role of board members and board treasurer
* Numbers tell a story.
  + Good financials should tell meaningful stories to the end-user. Different users have different needs, so the numbers may appear different.
* Accounting Overview
  + 5 Basic accounting categories
  + Comparison of Accounting methods
* Review of Madrone Trail financials
* Budgeting: Why do it, how does it work?
* DISTINCTION BETWEEN THE USE OF PUBLIC/PRIVATE FUNDS
  + Procedures for handling those funds

**Basic Accounting:**

Assets = Liabilities + Equity

Revenues – Expenses = Net Income

**Balance Sheet**

*A snapshot in time*

(What we have, and who has claims on it)

**Assets**: *Stuff we have, used to generate Rev.*

* Current Assets
  + Cash (Bank Accounts)
  + Receivables
  + Investments
* Inventory
* Fixed Assets
  + Chairs
  + Property
  + Buildings

**Total Assets: \_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Liabilities**: *Stuff we owe*

* Current Liabilities
  + Credit Cards
  + Payroll taxes
  + Accounts Payable
* Long-term Debt
  + Mortgage

**Total Liabilities: \_\_\_\_\_\_\_\_\_\_\_\_\_**

**Equity**: *Stuff we get to keep*

* Owner Shares (stock)
* Retained Earnings (cumulative net income)

**Total Equity: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Income Statement**

*A movie (over a period of time)*

(What happened??)

**Revenues**: *Money generated by our assets*

* Sales of Goods
* Sales of Services
* Investment Income

**Total Revenue: \_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Expenses**: *Costs associated with sales and operations*

* Cost of Goods Sold
* Salaries & Wages
* Payroll Taxes
* Benefits
* Interest Expense
* Office Supplies
* Rent/Mortgage
* Utilities
* Taxes
* Professional Services
* Advertising
* Insurance

**Total Expenses: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Net Income: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**

**Comparison of** **Accounting Methods**

**For-Profit**

**Balance Sheet:**

Assets =

Liabilities

+ Equity

**Income Statement:**

Revenue

- Expenses

= Net Income

**Not-For-Profit**

**Financial Position:**

Assets =

Liabilities

+ Net Assets

* Unrestricted Net Assets
* Temporarily Restricted Net Assets

**Statement of Activities:**

Revenue

* Sales
* Donations
* Grants
* Fundraising

- Expenses

= Change in Net Assets

**Governmental:**

**Statement of Net Position**

Governmental Funds

* General Fund
* Special Revenue Fund (ie, Sprouts)
* Capital Projects Fund
* Debt Service Fund
* Permanent Fund

Proprietary Funds

* Internal Service Funds
* Enterprise Funds

Fiduciary Funds

* (ie, PERS)

**Change in Fund Balance**

**Reviewing Financial Statements**

1. What are the similarities and differences between the Internal Reports, IRS Form 990, and Audited Financials?
2. What are the largest contributors to revenues and expenses?
3. What line items do you not understand?
4. What “drives” each line item?
5. What line items are significantly different than budgeted amounts? (or normal trends, or not within the realm of reason?)
6. How do we ensure expenses stay within budgeted amounts? [detect waste & fraud?]
7. If we wanted to improve our “bottom line,” what lines would you try and change? What lines are “discretionary”?
8. What should we do with our positive Net Income?

**Budgeting**

**Purpose:**

* Why do it?? A plan is necessary to achieve your goals, especially when resources are limited.
* The Medford School District requires us to submit our plan, to prove we have sustainable operations.
* If there is no plan, then financial aspects of the organization cannot be “managed.”
  + Examples: How much can I spend on supplies? Since we saved on X, can we spend more on Y?

**Process:**

* Come up with reasonable expectations for future periods.
  + Look at past trends.
  + Update trends for known future changes.
    - Examples: new hires, PERS increases, minimum wage increases, sabbaticals
* Establish your financial goals.
  + At minimum, the target should be to have Revenues ≥ Expenses
    - If not, what plan do you have for the future so that current losses will be recouped?
  + Do you have additional goals that would require excess income to be saved?
    - Example: Building up our Operating Reserves to 3-months of expenditures, would require we save ~$30,000 per year for 5 years.
* Adjust budget trends as needed, to bring them in line with established goals.
  + *This is where creativity, adaptability, conflict and compromise all occur!*

**Principles:**

* Ongoing expenses should be supported by sustainable revenue (ie, salaries, utilities, should be covered by ADM). One-time revenue should be used for one-time expenses (ie, grants and fundraising should be used for capital improvements). Using unreliable revenue for ongoing expenses is a recipe for disaster.
* Understand relationships and “drivers.” Not all line items are independent. For example, increasing salaries also increases payroll taxes, PERS, etc. Adding 2 students to each class has minimal incremental cost, but adding a second class requires another teacher, and possible and aide.