Finance for Non-Finance Leaders

Trainer: Denes L. Tobie, CPA, Partner

No Recordings of Any Kind

This includes any video or audio images on your smart devices.
Materials/Disclaimer

Please note that these materials are incomplete without the accompanying oral comments by the trainer(s).

These materials are informational and educational in nature and represent the speakers’ own views. These materials are for the purchasing agency’s use only and not for distribution outside of the agency or publishing on a public website.

Introductions
Our Agenda

- Accounting 101
- Explore Financials
- Budgeting
- Cost Allocation
- Financial Discussions
- Action Items

Your Agenda

[Image of a crowd of people raising hands]
Management’s Job

- Design and operations
- Long and short-term planning goals and objectives
- Budget planning, including applicable policies
- Monitoring monthly financial statements

Financial Management

- Understand financial statements & risks
- Understand the impact of business decisions on financial statement
- Understand revenue recognition issues on the Statement of Activities
- Ability to discuss finances for impactful decision making
Statement of Financial Position (Balance Sheet)

The “Balance Sheet” is a snapshot of the financial position of the organization on a particular day (usually the end of a month or year).
**Accounting 101**

**Accounting rule #1**

Assets = Liabilities + Net Assets

When this is not the case, accountants will say they are “out of balance”

**Statement of Financial Position (Balance Sheet)**

Three Main Components of the Statement of Financial Position

- Assets
  - Current and Non-current
- Liabilities
  - Current and Non-current
- Net Assets
  - Unrestricted
  - Temporarily Restricted
  - Permanently Restricted

Note these are changing to:
- Net Assets with Donor Restriction
- Net Assets without Donor Restriction
# Sample Balance Sheet – (a/k/a Statement of Financial Position)

## Assets

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>1,100,000</td>
</tr>
<tr>
<td>Certificates of deposit</td>
<td>210,000</td>
</tr>
<tr>
<td>Grants receivable - Net</td>
<td>190,000</td>
</tr>
<tr>
<td>Accounts receivable - Net</td>
<td>160,000</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>10,000</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>1,670,000</td>
</tr>
<tr>
<td>Property and equipment - Net</td>
<td>430,000</td>
</tr>
<tr>
<td>Interest in investment held by a community foundation</td>
<td>450,000</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td><strong>2,550,000</strong></td>
</tr>
</tbody>
</table>

## Liabilities and Net Assets

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>60,000</td>
</tr>
<tr>
<td>Accrued payroll and related expenses</td>
<td>130,000</td>
</tr>
<tr>
<td>Grant funds received in advance</td>
<td>140,000</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>330,000</td>
</tr>
<tr>
<td>Net assets</td>
<td>2,220,000</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>1,770,000</td>
</tr>
<tr>
<td>Temporarily restricted</td>
<td>200,000</td>
</tr>
<tr>
<td>Permanently restricted</td>
<td>250,000</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td><strong>2,220,000</strong></td>
</tr>
</tbody>
</table>

**TOTAL LIABILITIES AND NET ASSETS** $ 2,550,000

---

### Your...

#### Assets

- **Current**
  - **Cash** *(money in your piggy bank at home)*
  - Certificates of deposit *(in your name)*
  - Receivables *(money someone owes you)*
  - Prepaid expenses *(gift cards)*
  - Other assets

- **Non-current**
  - Property and equipment *(home / vehicle)*
  - Loans receivable
  - Deposits *(money in your bank account)*
Statement of Financial Position (Balance Sheet)

**Assets**

- **Current**
  - Cash
  - Certificates of deposit
  - Receivables – patient payments, grants, Medicaid, Medicare, etc.
  - Prepaid expenses
  - Other assets

- **Non-current**
  - Property and equipment
  - Loans receivable
  - Deposits

**Liabilities**

- **Current**
  - Line of credit (*home repairs*)
  - Current portion of long-term debt (*mortgage payment*)
  - Accounts payable
  - Accrued expenses (*credit cards*)

- **Non-current**
  - Notes payable
  - Loans payable
  - Deposits
Statement of Financial Position (Balance Sheet)

Liabilities

- Current
  - Line of credit
  - Current portion of long-term debt
  - Accounts payable
  - Accrued expenses
  - Grant funds received in advance (unearned revenue)
- Non-current
  - Notes payable
  - Loans payable
  - Deposits

Net Assets

- Difference between what is owned (assets) and what is owed (liabilities)
  - Unrestricted (spending money)
  - Temporarily restricted (savings for a new car)
  - Permanently restricted (retirement accounts)
- Net assets = equity
The “Income Statement” is a summary of the financial activity of the organization over a period of time (usually a month or year).
Statement of Activities

What:

- List of revenues and expenses for the entire organization
- Can also be presented by program, department, etc.
- Typically includes the following columns:
  - Current months activity
  - Prior years monthly activity
  - Current year to date totals
  - Prior year to date total

Sample Statement of Activities

<table>
<thead>
<tr>
<th></th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Support and revenue</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grant revenue</td>
<td>$ 2,820,000</td>
<td>0</td>
<td>$ 2,820,000</td>
</tr>
<tr>
<td>Performance revenue, net of contracts</td>
<td>730,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Clinic fee reimbursements</td>
<td>21,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Donations</td>
<td>72,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Change in interest in investment</td>
<td>0</td>
<td>52,000</td>
<td>0</td>
</tr>
<tr>
<td>In-kind contributions</td>
<td>170,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>10,000</td>
<td>(10,000)</td>
<td>0</td>
</tr>
<tr>
<td>Total support and revenue</td>
<td>3,823,000</td>
<td>42,000</td>
<td>0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenses</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nutrition, education, and food</td>
<td>830,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Health care for the homeless</td>
<td>1,060,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Children’s health and education</td>
<td>90,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Medication and prescription assistance</td>
<td>65,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Women’s health prevention/intervention</td>
<td>140,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Dental</td>
<td>274,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Other clinic programs</td>
<td>595,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total program expenses</td>
<td>3,084,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Management and general expense</td>
<td>405,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Fund-raising expense</td>
<td>15,000</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total expenses</td>
<td>3,504,000</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Change in net assets

| Net assets at beginning | 1,469,000 | 140,000 | 250,000 | 1,859,000 |
| Net assets at end       | 1,786,000 | 182,000 | 250,000 | 2,220,000 |
Statement of Activities

Provides detail of the revenues earned

- Detailed revenue
  - Grants (wages received for services provided)
  - Childcare revenue (wages received for services provided)
  - Donations (gifts from family and friends)
  - Interest on investments (earnings on savings; dividends)
  - In-kind contributions (value of good deeds)

Yours...

Provides more detail of the expenses incurred

- Detailed expenses
  - Salaries (money you pay to others for services)
  - Benefits (money you save for retirement)
  - Insurance (home and auto)
  - Professional fees (learning Spanish)
  - Rent (mortgage)
  - Supplies (toilet paper!)
  - Travel and entertainment (cruise to the Bahamas)
  - Fund-raising (donations to great causes)
  - Miscellaneous (Friday night fish fry)
Statement of Functional Expenses

Provides more detail of the expenses incurred

- Detailed expenses
  - Salaries
  - Benefits
  - Insurance
  - Professional fees
  - Rent
  - Supplies
  - Travel and entertainment
  - Fund-raising
  - Depreciation
  - Miscellaneous

Costs

Fixed costs cannot be changed in the short-term.

Variable costs are expenses that vary based on outcomes or participants served.

Semi-variable costs have characteristics of both variable and fixed costs and can be under or over spent.
Budget Variance Report

**What:**
- Shows a comparison of the actual expenses to the budgeted expenses for entire agency
- Can also be presented by department, grant, program, etc.
- Typically includes the following columns:
  - Current months activity
  - Prior years monthly activity
  - Current year to date totals
  - Prior year to date total

**Why:**
- Compares current year with prior year
- Compares the $ amount and % amount change between the prior year and the current year
- Explains reasons for any unusual fluctuations in the balances
- Shows categorical basis, for example:
  - Space costs
  - Utility costs
  - Salaries and wages
  - Fringe benefits
# Budget Variance Report

<table>
<thead>
<tr>
<th></th>
<th>YTD Actual</th>
<th>YTD Budget</th>
<th>Difference Actual vs. Budget</th>
<th>% Change</th>
<th>Prior YTD Actual</th>
<th>Difference YTD Actual vs. Prior YTD Actual</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Production</td>
<td>$ 6,126,107</td>
<td>$ 7,143,897</td>
<td>$(1,017,790)</td>
<td>85.8%</td>
<td>$ 5,988,814</td>
<td>$ 137,293</td>
<td>2.3%</td>
</tr>
<tr>
<td>Medicaid Discounts</td>
<td>(3,316,263)</td>
<td>(3,403,000)</td>
<td>86,737</td>
<td>97.5%</td>
<td>(3,448,671)</td>
<td>132,408</td>
<td>-3.8%</td>
</tr>
<tr>
<td>Uninsured Discounts</td>
<td>(688,300)</td>
<td>(714,390)</td>
<td>26,090</td>
<td>96.3%</td>
<td>(698,860)</td>
<td>10,560</td>
<td>-1.5%</td>
</tr>
<tr>
<td>Net Provider Production</td>
<td>2,121,544</td>
<td>(3,028,507)</td>
<td>$(904,963)</td>
<td>70.1%</td>
<td>1,841,283</td>
<td>$ 280,261</td>
<td>15.2%</td>
</tr>
<tr>
<td>Other Service Revenue</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.0%</td>
<td>-</td>
<td>-</td>
<td>0.0%</td>
</tr>
<tr>
<td>Direct Public Support</td>
<td>357,535</td>
<td>166,990</td>
<td>190,545</td>
<td>214.1%</td>
<td>389,652</td>
<td>(32,116)</td>
<td>-8.2%</td>
</tr>
<tr>
<td>Total Income</td>
<td>2,479,079</td>
<td>3,193,497</td>
<td>$(714,418)</td>
<td>77.6%</td>
<td>2,230,934</td>
<td>$ 248,145</td>
<td>11.1%</td>
</tr>
<tr>
<td>Supplies</td>
<td>428,903</td>
<td>405,631</td>
<td>21,272</td>
<td>105.2%</td>
<td>286,673</td>
<td>140,263</td>
<td>48.9%</td>
</tr>
<tr>
<td>Other Expenses</td>
<td>54,158</td>
<td>46,100</td>
<td>8,058</td>
<td>117.5%</td>
<td>33,232</td>
<td>20,927</td>
<td>63.0%</td>
</tr>
<tr>
<td>Employee Taxes &amp; Bene.</td>
<td>177,941</td>
<td>199,356</td>
<td>(21,415)</td>
<td>89.3%</td>
<td>140,554</td>
<td>37,387</td>
<td>26.6%</td>
</tr>
<tr>
<td>Salaries and Wages</td>
<td>1,295,082</td>
<td>1,421,371</td>
<td>(126,289)</td>
<td>91.1%</td>
<td>1,048,633</td>
<td>246,449</td>
<td>23.5%</td>
</tr>
<tr>
<td>Occupancy and Deprec.</td>
<td>282,888</td>
<td>227,159</td>
<td>55,729</td>
<td>124.5%</td>
<td>208,065</td>
<td>74,824</td>
<td>36.0%</td>
</tr>
<tr>
<td>Professional Fees</td>
<td>470,491</td>
<td>534,613</td>
<td>(64,122)</td>
<td>88.0%</td>
<td>483,353</td>
<td>(12,863)</td>
<td>-2.7%</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>2,797,464</td>
<td>2,634,230</td>
<td>$(126,767)</td>
<td>95.5%</td>
<td>2,200,510</td>
<td>$ 506,953</td>
<td>23.0%</td>
</tr>
<tr>
<td>Other Income/Expense</td>
<td>18,984</td>
<td>10,591</td>
<td>8,393</td>
<td>179.2%</td>
<td>(438)</td>
<td>19,422</td>
<td>-443.1%</td>
</tr>
<tr>
<td>Net Income (Loss)</td>
<td>(209,401)</td>
<td>369,858</td>
<td>$(579,259)</td>
<td>-56.6%</td>
<td>(29,866)</td>
<td>(239,386)</td>
<td>-798.3%</td>
</tr>
</tbody>
</table>

## Allocations

### Space
- By Square Foot?
- By # staff?
- Charged to?

### Salary
- Charged to?
- % of fringe?
- Hard to allocate?

### Equipment/Supplies
- Bought by?
- By # staff?
- Charged to?
How does a budget help you?

A well-developed budget will:

- Allocate financial funds to each program
- Help limit management & general expenses
- Limit expenses to the extent of revenue
- Provide control over safeguarding organization assets
- Provide general direction of organization for the short and long term
- Communicate direction to the employees & general public

The benefits of budgeting

- Reminds leaders of financial ramifications of their purchasing or hiring decisions.
  Allows the Board of Directors to be involved in the financial direction of the organization.
  Provides financial information to the Board of Directors to monitor throughout the year.
- A well developed budget is a financial control & tool to be used throughout the year.
Who – Board of Directors

The Board of Director’s important role in the budgeting process is being responsible for:

1. Monitoring that management is preparing the budget.
2. Providing advice on major budget assumptions.
3. Providing final approval of the budget.
4. Monitoring the budget throughout the year.

Who – Board of Directors

The Board of Directors should review budget assumptions, ask questions of management, and approve the final budget.

Throughout the year, the Board reviews budget-to-actual reports to track how results match plans.

Budget differences (variances) require additional explanation from management.
Who – Executive Director (ED)

The ED sets the direction of the organization both for the short- and long-term.

The ED is usually in the best position to estimate future funding levels.

The ED is involved in determining the estimated revenue for services to drive the budgeted expenses.

Who – Program Managers

Program Managers are responsible for making decisions regarding the use of funds in their program for all expenses.

Examples:
- Program supplies
- Staffing levels
- Salary adjustments
- Space costs
- Transportation costs
- Printing costs
- Training costs
- Equipment purchases
Who – Fiscal Department

The Fiscal Department puts it all together:

- Budgeted revenues to be received.
- Budgeting administration costs including: fiscal, human resources, IT, or other shared costs allocated to all programs.
- Providing estimated costs to program directors for salaries and benefits.
- Centralizing the information received from the program directors.
- Updating the budget for various scenarios.
- Preparing updates of the budget vs. actual results.
### To begin budgeting ask…

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do we expect increases or decreases funding and other revenues?</td>
<td></td>
</tr>
<tr>
<td>Are we expecting to add new locations or close existing locations?</td>
<td></td>
</tr>
<tr>
<td>Do we plan on adding new programs and/or services?</td>
<td></td>
</tr>
<tr>
<td>Do we expect to give raises or adjust benefits?</td>
<td></td>
</tr>
<tr>
<td>Are there any open positions that need to be filled, or are there any positions that need to be eliminated?</td>
<td></td>
</tr>
<tr>
<td>How will price changes for supplies, utilities, or other items affect the costs for the organization?</td>
<td></td>
</tr>
<tr>
<td>Are there capital assets (equipment) that need replacing in the coming year?</td>
<td></td>
</tr>
</tbody>
</table>
### Budgeting Tips

Spend considerable time on budgeted staff costs using a spreadsheet to include:

**Data Input:**
- Employee location
- Employee title
- Employee Name or “TBD”
- Hours per week
- Number of annual weeks worked
- Hourly rate

**Calculated Amounts:**
- Annual wages
- FICA taxes
- Unemployment taxes
- Workers compensation taxes
- Employer retirement contribution
- Insurance costs
- Total employee costs
- Full-time equivalents (FTEs)
Assessing Financial Health

Not everyone is a “numbers” person.
That is okay.
The key is to get educated by asking the right questions of individuals that are “numbers” people and requesting the right information.

Program Assessment Questions

- Are the revenues consistent with last year and/or current budget?
- Are the expenses in line with last year and/or current budget?
- How are we progressing toward achieving this year’s program goals?
- What are the performance trends of the program over the last 3 to 5 years of the program?
- How does the program compare to others?
Your To Do’s

Connect with me:

- www.linkedin.com/in/denestobie
- www.facebook.com/WipfliNGP

Bring Wipfli to You:

Kate D. Atkins, MS
katkins@wipfli.com
608.270.2944

My Wipfli – Access to our experts:

- Regulation questions
- Audit
- Process
- Human Resource
- Technology
- Leadership

www.wipfli.com/mywipfli