The Balance Sheet

One of the keys to understanding the financial position of the association is to gauge the association's financial condition at a specific point in time. The following chart is a balance sheet which reflects the association's overall financial condition. It shows how much the association has (**assets**), how much it is owed (**assets**) and how much the association owes to others (**liabilities**) at a given point in time. Assets minus liabilities indicate your **equity.** A balance sheet, then, is a snapshot of your financial condition at any one time. The Treasurer needs to prepare a balance sheet like this before developing a budget for the next fiscal year.

Preparing a balance sheet

The Balance Sheet provides a "**snapshot**" of the organization’s financial standing at a specific point in time. All of the assets, liabilities and the fund balance or net worth are listed. The Assets section is listed first followed by the Liabilities and Net Assets section. Assets should equal the Liabilities and Net Assets.

Included under the Assets section are Current Assets and Fixed Assets. **Current Assets** are cash-related items such as the ending balances of all checking and/or savings accounts as of the date the Balance Sheet is prepared. Amounts owed to the organization or accounts receivable (dues owed but not yet paid if accounting is done by the accrual method) should be included in the Current Assets section as well. **Fixed assets** such as equipment that is owned by the local, buildings, etc. should be listed in the Assets section under the heading Fixed Assets. The Current Assets along with any Fixed Assets make up **Total Assets**.

The other major section of the Balance Sheet is the **Liabilities** and **Net Assets** section. Liabilities are the debts that are owed by the organization. They include amounts owed for items purchased on credit (accounts payable), salaries owed to employees but not yet paid, per capita owed to affiliates and taxes or loans that are also payable.

The Net Assets section refers to the combination of Unrestricted, Temporarily Restricted and Permanently Restricted Assets. The difference between the balance(s) at the beginning of the period in the checking and/or the savings accounts and the balance(s) stated above in the Assets section is calculated and listed as the Unrestricted amount. Assets that are being held for a specific purpose or are under the control of outside donors are considered either permanently or temporarily restricted. If the balance(s) at the end of the period is more than the beginning balance(s), the result is a surplus. If the opposite is true, then the Balance Sheet will reflect a deficit. The Total Liabilities along with the Total Net Assets should equal the Total Assets amount. This figure would be depicted at the bottom as the Total Liabilities and Net Assets.

Tip: Balance sheets are prepared at regular intervals such as the end of the month, quarter or year. The balance sheet reflects a specific date rather than a specific time period.

Definitions **(For Your Info)**

Asset: an item of value owned by the organization. An asset may be in the form of cash, securities, equipment, or real estate, etc.

Corporation: In the case of a non-profit organization, the corporation refers to an organization with letters patent, incorporated without share capital.

Liabilities: any obligations by which an organization is bound to pay a sum expressed in dollars, or having to give up some asset having a monetary value. Local unions obligations or debts.

Fund Balance: appears between the bottom of the Statement of Activities or Balance Sheet and is the difference between the Total Assets and Total Liabilities.

Net Assets: are the amount that would be left over if all of the union's assets had to be sold to satisfy all of the union's liabilities. Sometimes called Net Worth or Members' Equity.

Current Assets: those assets which mature into cash in one year or less (CA).

Accounts Receivable: dollars due from customers as a result of selling services or inventory on terms which allow for delivery prior to the payment of cash. The transaction exists as a receivable on the balance sheet until cash is collected from the customer (A/R).

Inventory: the goods and materials a company sells to make a profit. Inventory exists in three forms: raw materials, work in progress, and finished goods. In the process of selling inventory, either cash is received or an account receivable is created (INV).

Prepaid Expenses: when cash is used to purchase a good or service, the benefits of which will be realized or received within the current year (12 months).

Fixed Assets: physical assets which have life in excess of one year. This includes land, buildings, machinery, equipment, furniture/fixtures, and leasehold improvements (FA).

Net Fixed Assets: Also known as the book value, the net fixed asset is calculated as the purchase price of the asset (gross fixed asset) less the accumulated depreciation (the sum of the annual amounts charged for the "wearing out" of the asset) (NFA).

Notes Receivable: a loan made by the company which is evidenced by a promissory note (N/R).

Intangibles: assets which have no physical properties or "set" values. Examples of intangibles include patents, research and development, and goodwill (INT).

Current Liabilities: what the company "owes" which must be paid within one year (CL).

Note Payable Bank: obligations evidenced by a promissory note from the bank which have maturity dates of less than one year (N/P).

Accounts Payable: amounts due to suppliers who have provided inventory to the company (A/P).

Accruals: obligations owed but not yet billed (ACCR).

Current Portion of Long-Term Debt: the portion of a long-term loan (principal only) which is due within the next 12 months (CDTD).

Long Term Debt: the portion of a term loan which does not have to be paid within the next year.

Staff person: refers to an individual within the organization/corporation employed by the board.

Subordinated Officer Debt: Cash the officers have invested in the company which is subordinated to any bank financing the company has received.

Net Worth: The owner's investment or "equity" in the company which may be either "purchased" or "earned." Purchased equity consists of preferred stock, common stock, and capital surplus. Simply put, the net worth is the difference between the assets and liabilities of a company (NW).

Balance Sheet - Assets - Sample

Sample Organization
BALANCE SHEET
As of March 31, 200_

ASSETS
CURRENT ASSETS
Petty Cash
Operating Bank Account
Project 1 Bank Account
Project 2 Bank Account
Term Deposits

____

Total Cash : ____________

Grants Receivable
Accounts Receivable
G.S.T. Rebate Receivable

____

Total Receivables : _______________

Inventory
Prepaid Insurance
Prepaid Expenses

____

Total prepaid Expenses : ______________

TOTAL CURRENT ASSETS _________________

FIXED ASSETS
Office Equipment
Accumulated Depreciation

____

Computer Equipment
Accumulated Depreciation

____

Leasehold Improvements
Accumulated Depreciation

____

____

TOTAL FIXED ASSETS ________________

____

TOTAL ASSETS

Balance Sheet - Liabilities - Sample

LIABILITIES

CURRENT LIABILITIES
Accounts payable
Accruals

Vacation Payable
EHT Payable
EI Payable
CPP Payable
Income Tax payable

______

Receiver General Payable
WCB Payable
G.S.T. Payable
G.S.T. Recoverable

______

Total G.S.T. Payable
Deferred Grant Revenue
Deferred Revenue
Due to Affiliates 0.00

____

TOTAL CURRENT LIABILITIES_________

____

TOTAL LIABILITIES _________

EQUITY
FUND BALANCE

Operating Fund Balance
Capital Fund Balance
Current Surplus (Deficit) -

____

TOTAL FUND BALANCE ____________

____

TOTAL EQUITY _______________

____

LIABILITIES AND EQUITY ________________

Is the Budget Realistic?

Once the balance sheet indicates the overall financial health of the association at a specific point in time, the Treasurer can begin thinking about the development of the operating budget for the next fiscal year. Once developed, this budget is taken to the board for approval.

As Treasurer, where do you start when trying to develop a realistic budget? Begin by taking a look at the previous year's budget. What did the association actually spend? What do you know about inflation and other factors that will affect the coming year's budget? Does the budget make sense?

It is important to develop a budget with which you can live. The budget you develop will determine for example, the salaries you pay. If you overestimate your income and/or underestimate your expenses, you could be saddling the association and the Board members with debt.

The following chart provides you with a sample budget. Because it is last year's budget, both the original amounts budgeted and the actual amounts spent are included. With this sample, you can get a sense of what needs to be taken into consideration when you develop a budget.

Budget & Actual Report - Sample

Not available -- data in tables needs to be converted

	Budget	Actual
INCOME		
Operating grant	?	$80,000
Project grant	$134,000	$134,000
Memberships		
Donations		
Endowment fund		
etc		
Total Income		
EXPENSES		
Salary & Benefits		
Office Rental		
Telephone, toll free line, fax, cell phone, Internet		

Office supplies, Postage, courier etc		
Photocopier		
Director's Liability Insurance		
Professional Fees - Bookkeeper		
Professional Fees - Auditor		
Travel & Conferences		
Board Communication		
Board Travel & Conferences		
Commitee Communication		
Total Expenses		
SURPLUS (DEFICIT)		

Report on Year's Budget (Y.T.D. minus B.T.D. = Variance)

Below is an example of how the Treasurer would report on the current year's budget. As Treasurer, you should produce regular statements which show the annual budget, the **budget-to-date**, the **year-to-date** actual, and the **variance**. This will tell you and the Board how you are doing so far this year.

The following points may help you. The variance is achieved by the following formula:

Y.T.D. - B.T.D. = Variance

The **Surplus (Deficit)** is calculated by taking the total income and subtracting the total expenses.

June 30, 2003

	Budget	**B.T.D.**	**Y.T.D.**	**Variance**
INCOME				
Operating grant				
Project grant				

Memberships				
Donations				
Endowment fund				
etc				
Total Income				
EXPENSES				
Salary & Benefits				
Office Rental				
Telephone, toll free line, fax, cell phone, Internet				
Office supplies, Postage, courier etc				
Photocopier				
Director's Liability Insurance				
Professional Fees - Bookkeeper				
Professional Fees - Auditor				
Travel & Conferences				
Board Communication				
Board Travel & Conferences				
Commitee Communication				
Total Expenses				
SURPLUS (DEFICIT)				

Using Past Budgets for developing Proposed Budget

If in the previous example, half way through the year, the association had a deficit, the Treasurer would need to ask whether there is an expectation that this will be reduced over the remainder of the year (and why) or, if not, what can be done to keep it from increasing. At the same time, she should be asking whether the proposed budget for the next year is realistic when compared to how this year is going.

The Treasurer compares these budgets with the proposed budget for the following year and poses key questions for the board and staff to consider.

ITEM
2004 Draft Questions

INCOME

Operating Grant
$80,000
The feds are cutting back in spending. What project funding can be explore to suppliment our operating expenses?

EXPENSES

Salary & Benefits
#######
Salaries have not been increased in several years. We should budget for a 10% increase.

Office Communication
######
You overspent in this area in both 2001 and in this year. Are you budgeting a sufficient amount?

Monthly Financial Statements

The Board should receive detailed financial statements on a regular basis, usually **quarterly**. At the monthly Board meeting, however, the Board usually wants a quick overview of how the association is doing financially. A written version of the Treasurer's monthly oral report to the Board should be included as a section of the minutes and should be circulated to all Board members prior to the meeting.

Monthly financial statements should be presented showing the current cash position and the performance of the association as compared to the approved budget. To simplify matters, many Treasurers use a standard form for their reports which include the appropriate numbers each month. The chart on the next page is an example of this type of form.

On a standard form for the Treasurer's report, two different areas are taken into account.

First, the overall financial picture must be considered. Most associations begin the year with some money in the bank. A picture that just shows the current year's financial activities, therefore, without indicating overall resources, can be misleading.

The first four boxes on the following chart show where the association should be according to the budget, where it actually is, and the difference between the two. Also, any known financial commitments (e.g. insurance premiums paid once a year) should be itemized since they affect the budget. Even though these financial commitments are for the future, the Board cannot accurately gauge the financial situation of the association unless upcoming debts are acknowledged. Appropriate provision for these commitments needs to be made.

The lower boxes, together with the upper boxes, give the Board a good picture of the finances of the association and make for good planning.

Consequently, this form makes the Treasurer's reporting easier.

Sample Treasurer's Report

SAMPLE TREASURER'S REPORT

Treasurer's Report for the Month of:

Cash on hand at the beginning of the month ________________

Income for the month ________________

Expenses for the month ________________

Cash on hand ________________

Budget to date ________________

Actual to date ________________

Difference ________________

Financial Commitments ________________

Glossary of Financial Terms

Appropriation: A transfer of net income or equity to a special account or fund, generally to restrict its availability for distribution.

Assets: Monetary or non-monetary items that represent probable future economic benefits controlled by the association.

Balance Sheet: A statement of financial position showing the assets, liabilities, and equity of an association at a point in time.

Budget: A detailed estimate of an association's fiscal plan of action for the next year.

Capital Assets: This term refers to buildings, equipment, etc. which are not consumed or used up in the normal operating process.

Capital Budget: A fiscal plan for the proposed additions to capital assets and their financing.

Cash Accounting: A method of accounting for transactions whereby the transaction is recorded when cash is received or spent.

Chart of Accounts: A list of all accounts in the General ledger with their assigned account number.

Depreciation: An accounting concept which allocates the cost of a fixed asset as an expense over the expected useful life of the asset.

Donations-in-Kind: Gifts in the form of donated goods or services to a non-profit association.

Endowment Fund: Restricted funds from which only the income (e.g. interest) from investing the principal may be spent.

Expenses: Outflows of resources arising from the operation of the association during a period.

Financial Statements: Normally comprising a balance sheet, a statement of revenue and expenses, a statement of changes in financial position, and accompanying notes.

Fixed Costs: Costs which do not fluctuate with volume.

General Ledger: A record of the summarized transactions from all other accounting journals. The balances in this ledger are summarized and grouped to prepare the financial statements. This ledger contains the complete financial history of the association.

Non-Current Assets: Assets which are held for a term greater than a year. Examples include land, buildings, and equipment.

Operating Fund: Consists of unrestricted contributions and day-to-day operating revenues and expenses of the association.

Pledges: Promises to donate funds at a future date(s) to a non-profit association.

Reconcile: To reconcile is to account for the difference between two related records (e.g. account for the difference between the month-end balance on the bank statement and the month-end balance in the accounting records or books of account.

Revenues: Revenues include: income from the sale of goods and services (after deduction of returns, allowances and discounts); gains from sale or exchange of assets; interest and dividends earned on investments; and donations and grants.