

# Everything You Wanted to Know About Financials but were too SCARED to Ask

**TGD District Meeting – June 2011**

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# Objectives

- WIIFM
- Review basic financial statements
- Identify some things Board Members should know



# Balance Sheet

**Assets = Liabilities + Owner's Equity**

- Snapshot in Time
- Sources of Funds
- Uses of Funds

# Balance Sheet

- Liabilities
  - Short Term
    - Accounts Payable – APICS, Instructors, Hotel
    - Accrued Payroll – Chapter Administrator
  - Long Term Debt
- Owners Equity
  - Retained Earnings



# Balance Sheet

- What are Assets?
  - Current Assets
    - Cash
    - Marketable Securities
    - A/R
    - Inventory - books
  - Long Term Assets
    - Plant, Property and Equipment



# Key Points

1.  $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$
2.  $\text{Assets} - \text{Liabilities} = \text{Equity}$
3. A/R and Cash should be the two most significant assets
4. Equipment – likely a distant 3rd.
5. There should be virtually no long term debt
6. You should have cash reserves equal to one year

# Some Things To Know

1. Rough understanding of chapter assets – total and percent
2. Where is your cash and who can get to it?
3. Rough understanding of debt and equity
4. Age of your A/R
5. How long you could survive if you received no income for an extended period of time

# Income Statement

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# Income Statement

- Shows flow
- Revenue
  - Membership
  - PDM
  - Education – Public & Private
  - Workshops / Seminars
- Cost of Services (COS)
  - Material
  - Instructor costs and expenses
- $\text{Gross Margin} = \text{Revenue} - \text{Cost of Sales}$



# Income Statement

- Gross Margin = Revenue – COS
- Gross Margin % = Gross Margin / Revenue
- Sales, General and Administrative (SG&A) Expenses
  - Chapter Admin
  - Chapter Website
  - Marketing
  - News letter
  - Legal and Professional – CPA, Lawyer
- Net Income = Gross Margin – SG&A

# Key Points

1. Revenue – Expenses = Gross Margin
2. Gross Margin – SG&A = Net Income
3. Gross Margin % = Gross Margin / Revenue
4. Net Income is important
  - Funds future activities
  - Protects against downturns
  - Supports investment
5. Not for Profit & Not for Loss
6. If profit is not the way you keep score then how do you know the activity creates VALUE?

# Some Things To Know

1. Where does your revenue come from?
  - If private class, who are the top X customers?
  - How dependent are you on one/few customers?
  - What are your key product line(s)?
  - What product lines growing / declining
2. Who are your top 5 – 10 vendors and how much did you spend on each?

# Some Things to Know

3. What roughly is your gross margin % on your key products lines?
  - Public classes
  - Private classes
  - Workshops/seminars
  - PDM
  
4. What are the key administrative expenses?
  - Chapter administrator?
  - PDM meeting room?
  - Board expenses?

# Fiduciary Responsibilities

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# Fiduciary Responsibilities



“Trust BUT Verify”

# Key Points

1. As a voting board member you are responsible!
2. Insurance likely will not cover gross negligence or fraud
3. Your personal reputation is at stake
4. Not knowing (plausible deniability) is not a valid excuse
5. Are you overseeing the dollars or micromanaging the pennies?

# Some Things To Know

1. Proper segregation of duties – separate accounting records from handling of money
2. Defined authorizations
  - What is the President authorized to approve
  - What is each board member approved
3. Proper authorizations for all transactions

# Some Things To Know

4. What are the key drivers of financial success for your chapter
5. Understand overhead!
  - Chapter expenses not tied to DIRECTLY producing income.
  - Examples: Chapter administrator, printed newsletters, CPA, PDM's if run at a loss
6. Cash reserves

# Summary

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# Conclusion

- Accounting is FUN
- Learn some if you want your opinions heard
- Trust
- Chapter / Leadership Handbook – Finance/Treasurer