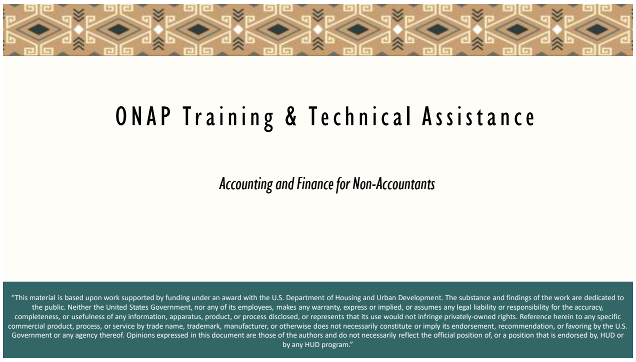

ONAP Training & Technical Assistance

Accounting and Finance for Non-Accountants

This virtual training is sponsored by the
U.S. Department of Housing & Urban Development's Office of Native American Programs and the
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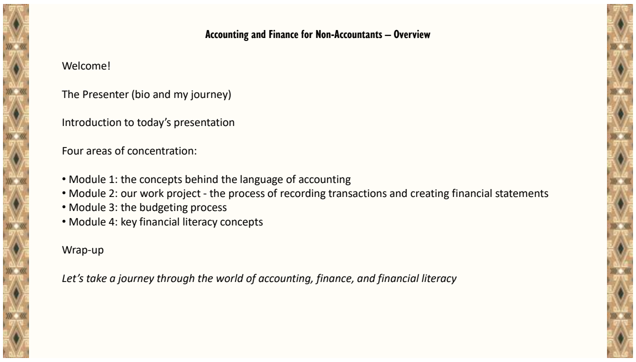


Accounting and Finance for Non-Accountants – Overview

Welcome!

The Presenter (bio and my journey)

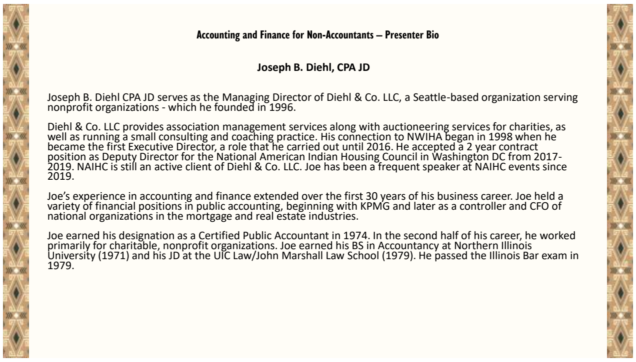
Introduction to today's presentation

Four areas of concentration:

- Module 1: the concepts behind the language of accounting
- Module 2: our work project - the process of recording transactions and creating financial statements
- Module 3: the budgeting process
- Module 4: key financial literacy concepts

Wrap-up

Let's take a journey through the world of accounting, finance, and financial literacy



Accounting and Finance for Non-Accountants – Presenter Bio

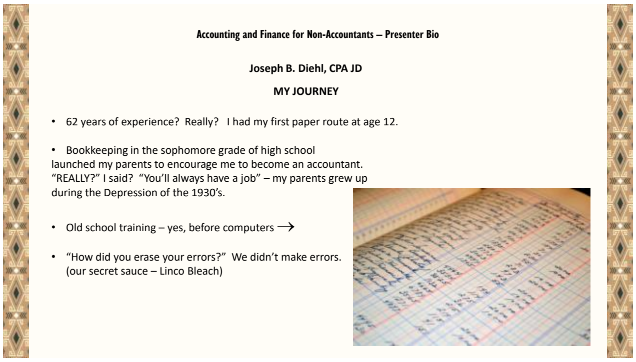
Joseph B. Diehl, CPA JD

Joseph B. Diehl CPA JD serves as the Managing Director of Diehl & Co. LLC, a Seattle-based organization serving nonprofit organizations - which he founded in 1996.

Diehl & Co. LLC provides association management services along with auctioneering services for charities, as well as running a small consulting and coaching practice. His connection to NWIHA began in 1998 when he became the first Executive Director, a role that he carried out until 2016. He accepted a 2 year contract position as Deputy Director for the National American Indian Housing Council in Washington DC from 2017-2019. NAIHC is still an active client of Diehl & Co. LLC. Joe has been a frequent speaker at NAIHC events since 2019.

Joe's experience in accounting and finance extended over the first 30 years of his business career. Joe held a variety of financial positions in public accounting, beginning with KPMG and later as a controller and CFO of national organizations in the mortgage and real estate industries.

Joe earned his designation as a Certified Public Accountant in 1974. In the second half of his career, he worked primarily for charitable, nonprofit organizations. Joe earned his BS in Accountancy at Northern Illinois University (1971) and his JD at the UIC Law/John Marshall Law School (1979). He passed the Illinois Bar exam in 1979.

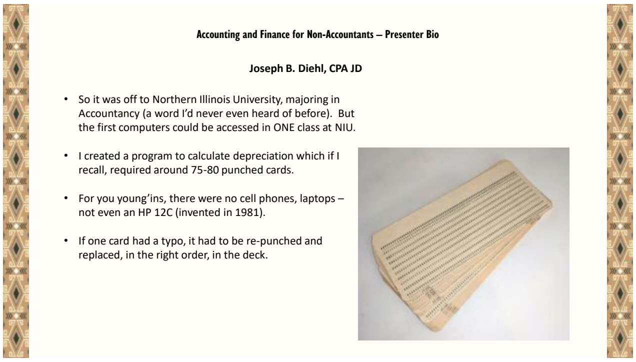


Accounting and Finance for Non-Accountants – Presenter Bio

Joseph B. Diehl, CPA JD

MY JOURNEY

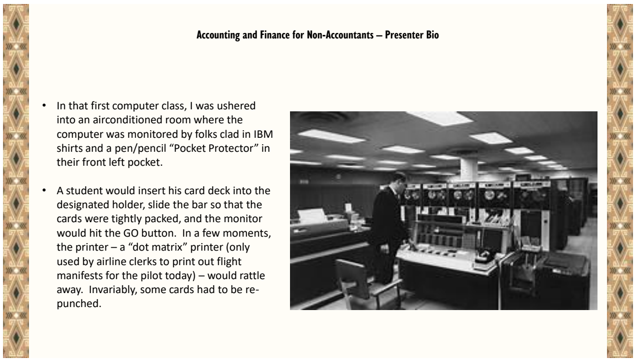
- 62 years of experience? Really? I had my first paper route at age 12.
- Bookkeeping in the sophomore grade of high school launched my parents to encourage me to become an accountant. "REALLY?" I said? "You'll always have a job" – my parents grew up during the Depression of the 1930's.
- Old school training – yes, before computers ⟶
- "How did you erase your errors?" We didn't make errors. (our secret sauce – Linco Bleach)



Accounting and Finance for Non-Accountants – Presenter Bio

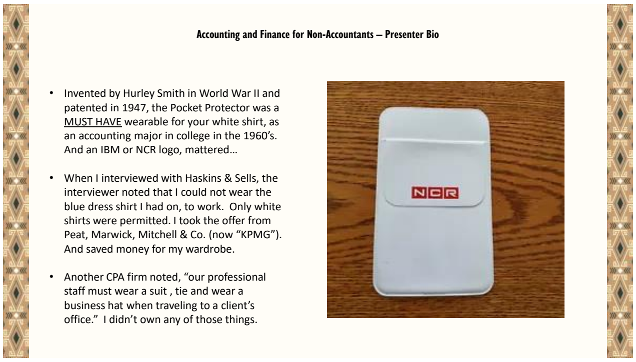
Joseph B. Diehl, CPA JD

- So it was off to Northern Illinois University, majoring in Accountancy (a word I'd never even heard of before). But the first computers could be accessed in ONE class at NIU.
- I created a program to calculate depreciation which if I recall, required around 75-80 punched cards.
- For you young'ins, there were no cell phones, laptops – not even an HP 12C (invented in 1981).
- If one card had a typo, it had to be re-punched and replaced, in the right order, in the deck.



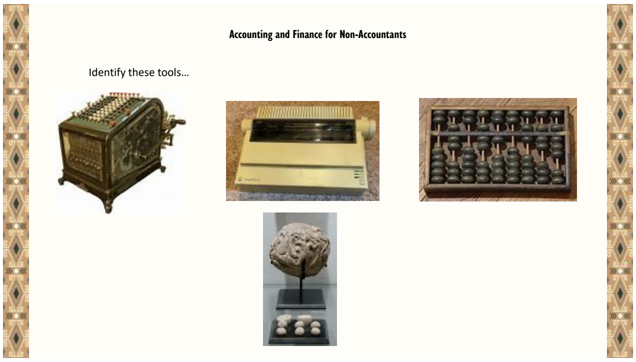
Accounting and Finance for Non-Accountants – Presenter Bio

- In that first computer class, I was ushered into an airconditioned room where the computer was monitored by folks clad in IBM shirts and a pen/pencil "Pocket Protector" in their front left pocket.
- A student would insert his card deck into the designated holder, slide the bar so that the cards were tightly packed, and the monitor would hit the GO button. In a few moments, the printer – a "dot matrix" printer (only used by airline clerks to print out flight manifests for the pilot today) – would rattle away. Invariably, some cards had to be re-punched.



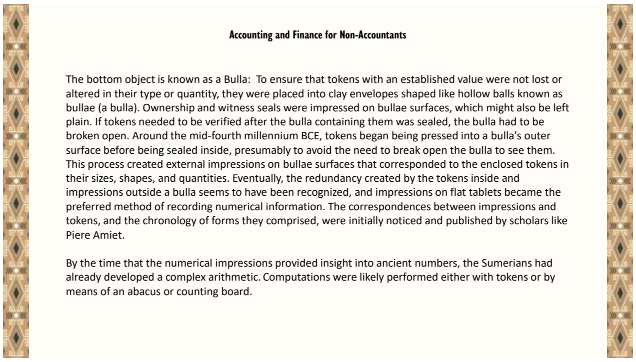
Accounting and Finance for Non-Accountants – Presenter Bio

- Invented by Hurley Smith in World War II and patented in 1947, the Pocket Protector was a MUST HAVE wearable for your white shirt, as an accounting major in college in the 1960's. And an IBM or NCR logo, mattered…
- When I interviewed with Haskins & Sells, the interviewer noted that I could not wear the blue dress shirt I had on, to work. Only white shirts were permitted. I took the offer from Peat, Marwick, Mitchell & Co. (now "KPMG"). And saved money for my wardrobe.
- Another CPA firm noted, "our professional staff must wear a suit , tie and wear a business hat when traveling to a client's office." I didn't own any of those things.



Accounting and Finance for Non-Accountants

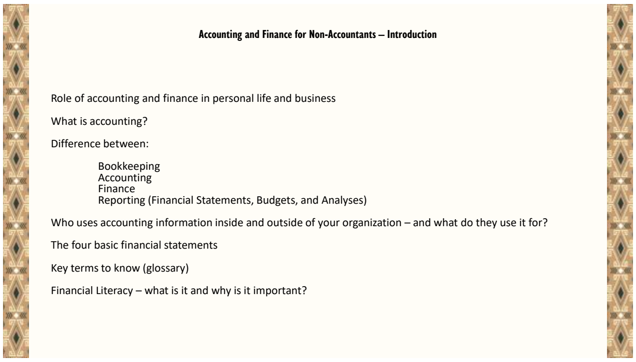
Identify these tools…



Accounting and Finance for Non-Accountants

The bottom object is known as a Bulla: To ensure that tokens with an established value were not lost or altered in their type or quantity, they were placed into clay envelopes shaped like hollow balls known as bullae (a bulla). Ownership and witness seals were impressed on bullae surfaces, which might also be left plain. If tokens needed to be verified after the bulla containing them was sealed, the bulla had to be broken open. Around the mid-fourth millennium BCE, tokens began being pressed into a bulla's outer surface before being sealed inside, presumably to avoid the need to break open the bulla to see them. This process created external impressions on bullae surfaces that corresponded to the enclosed tokens in their sizes, shapes, and quantities. Eventually, the redundancy created by the tokens inside and impressions outside a bulla seems to have been recognized, and impressions on flat tablets became the preferred method of recording numerical information. The correspondences between impressions and tokens, and the chronology of forms they comprised, were initially noticed and published by scholars like Piere Amiet.

By the time that the numerical impressions provided insight into ancient numbers, the Sumerians had already developed a complex arithmetic. Computations were likely performed either with tokens or by means of an abacus or counting board.



Accounting and Finance for Non-Accountants – Introduction

Role of accounting and finance in personal life and business

What is accounting?

Difference between:

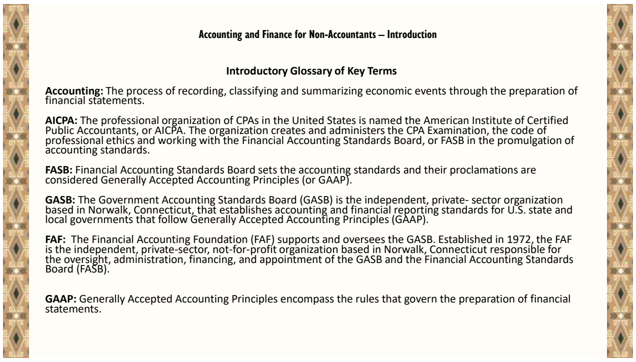
- Bookkeeping
- Accounting
- Finance
- Reporting (Financial Statements, Budgets, and Analyses)

Who uses accounting information inside and outside of your organization – and what do they use it for?

The four basic financial statements

Key terms to know (glossary)

Financial Literacy – what is it and why is it important?



Accounting and Finance for Non-Accountants – Introduction

Introductory Glossary of Key Terms

Accounting: The process of recording, classifying and summarizing economic events through the preparation of financial statements.

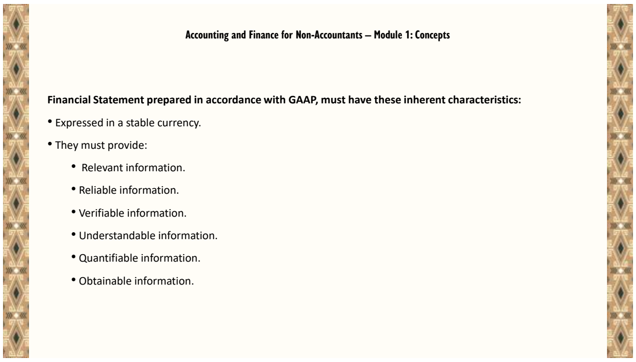
AICPA: The professional organization of CPAs in the United States is named the American Institute of Certified Public Accountants, or AICPA. The organization creates and administers the CPA Examination, the code of professional ethics and working with the Financial Accounting Standards Board, or FASB in the promulgation of accounting standards.

FASB: Financial Accounting Standards Board sets the accounting standards and their proclamations are considered Generally Accepted Accounting Principles (or GAAP).

GASB: The Government Accounting Standards Board (GASB) is the independent, private- sector organization based in Norwalk, Connecticut, that establishes accounting and financial reporting standards for U.S. state and local governments that follow Generally Accepted Accounting Principles (GAAP).

FAF: The Financial Accounting Foundation (FAF) supports and oversees the GASB. Established in 1972, the FAF is the independent, private-sector, not-for-profit organization based in Norwalk, Connecticut responsible for the oversight, administration, financing, and appointment of the GASB and the Financial Accounting Standards Board (FASB).

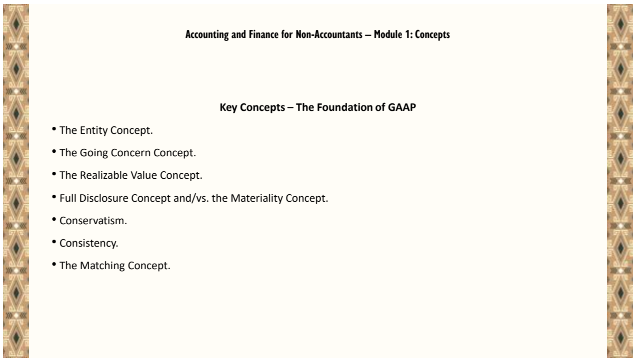
GAAP: Generally Accepted Accounting Principles encompass the rules that govern the preparation of financial statements.



Accounting and Finance for Non-Accountants – Module 1: Concepts

Financial Statement prepared in accordance with GAAP, must have these inherent characteristics:

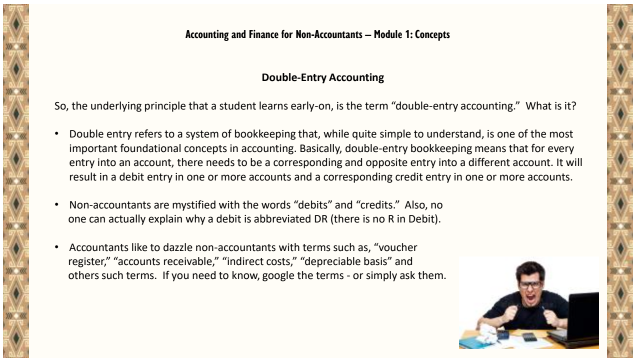
- Expressed in a stable currency.
- They must provide:
  - Relevant information.
  - Reliable information.
  - Verifiable information.
  - Understandable information.
  - Quantifiable information.
  - Obtainable information.



Accounting and Finance for Non-Accountants – Module 1: Concepts

Key Concepts – The Foundation of GAAP

- The Entity Concept.
- The Going Concern Concept.
- The Realizable Value Concept.
- Full Disclosure Concept and/vs. the Materiality Concept.
- Conservatism.
- Consistency.
- The Matching Concept.

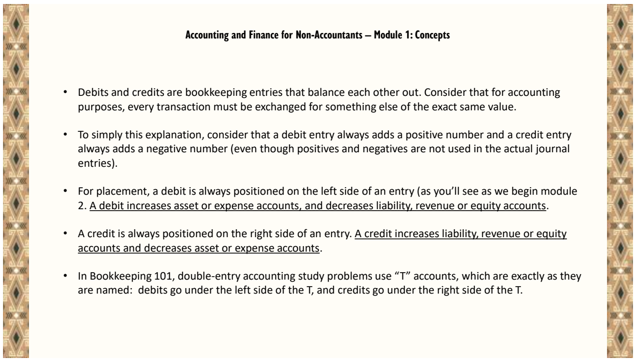


Accounting and Finance for Non-Accountants – Module 1: Concepts

Double-Entry Accounting

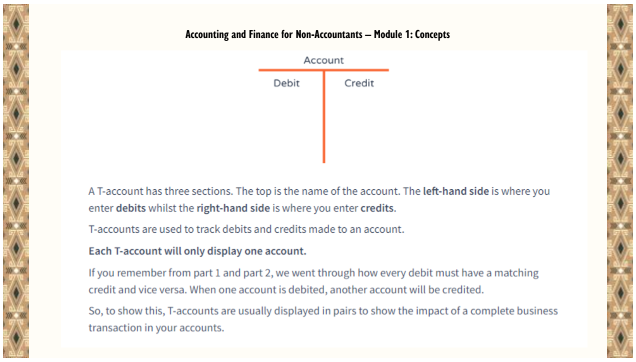
So, the underlying principle that a student learns early-on, is the term “double-entry accounting.” What is it?

- Double entry refers to a system of bookkeeping that, while quite simple to understand, is one of the most important foundational concepts in accounting. Basically, double-entry bookkeeping means that for every entry into an account, there needs to be a corresponding and opposite entry into a different account. It will result in a debit entry in one or more accounts and a corresponding credit entry in one or more accounts.
- Non-accountants are mystified with the words “debits” and “credits.” Also, no one can actually explain why a debit is abbreviated DR (there is no R in Debit).
- Accountants like to dazzle non-accountants with terms such as, “voucher register,” “accounts receivable,” “indirect costs,” “depreciable basis” and others such terms. If you need to know, google the terms - or simply ask them.



Accounting and Finance for Non-Accountants – Module 1: Concepts

- Debits and credits are bookkeeping entries that balance each other out. Consider that for accounting purposes, every transaction must be exchanged for something else of the exact same value.
- To simply this explanation, consider that a debit entry always adds a positive number and a credit entry always adds a negative number (even though positives and negatives are not used in the actual journal entries).
- For placement, a debit is always positioned on the left side of an entry (as you'll see as we begin module 2. A debit increases asset or expense accounts, and decreases liability, revenue or equity accounts.
- A credit is always positioned on the right side of an entry. A credit increases liability, revenue or equity accounts and decreases asset or expense accounts.
- In Bookkeeping 101, double-entry accounting study problems use "T" accounts, which are exactly as they are named: debits go under the left side of the T, and credits go under the right side of the T.



Accounting and Finance for Non-Accountants – Module 1: Concepts

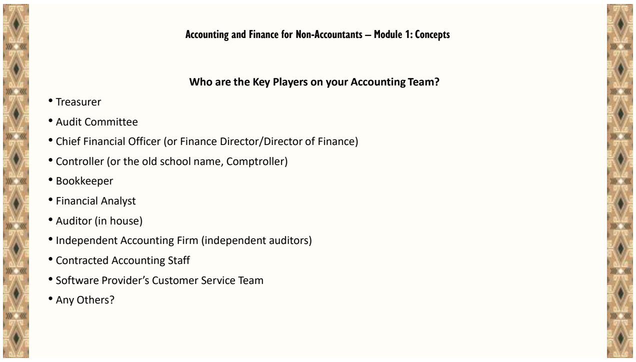
A T-account has three sections. The top is the name of the account. The **left-hand side** is where you enter **debits** whilst the **right-hand side** is where you enter **credits**.

T-accounts are used to track debits and credits made to an account.

Each T-account will only display one account.

If you remember from part 1 and part 2, we went through how every debit must have a matching credit and vice versa. When one account is debited, another account will be credited.

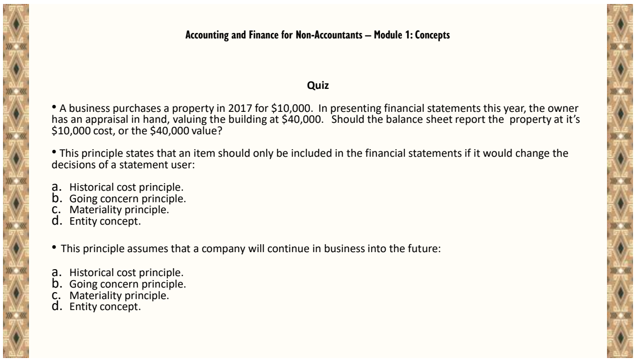
So, to show this, T-accounts are usually displayed in pairs to show the impact of a complete business transaction in your accounts.



Accounting and Finance for Non-Accountants – Module 1: Concepts

Who are the Key Players on your Accounting Team?

- Treasurer
- Audit Committee
- Chief Financial Officer (or Finance Director/Director of Finance)
- Controller (or the old school name, Comptroller)
- Bookkeeper
- Financial Analyst
- Auditor (in house)
- Independent Accounting Firm (independent auditors)
- Contracted Accounting Staff
- Software Provider's Customer Service Team
- Any Others?



Accounting and Finance for Non-Accountants – Module 1: Concepts

Quiz

- A business purchases a property in 2017 for $10,000. In presenting financial statements this year, the owner has an appraisal in hand, valuing the building at $40,000. Should the balance sheet report the property at it's $10,000 cost, or the $40,000 value?
- This principle states that an item should only be included in the financial statements if it would change the decisions of a statement user:

a. Historical cost principle.
b. Going concern principle.
c. Materiality principle.
d. Entity concept.

- This principle assumes that a company will continue in business into the future:

a. Historical cost principle.
b. Going concern principle.
c. Materiality principle.
d. Entity concept.

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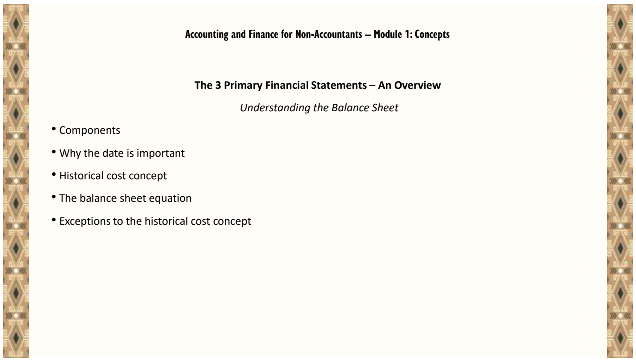

Accounting and Finance for Non-Accountants – Module 1: Concepts

The 3 Primary Financial Statements – An Overview

Understanding the Balance Sheet

- Components
- Why the date is important
- Historical cost concept
- The balance sheet equation
- Exceptions to the historical cost concept

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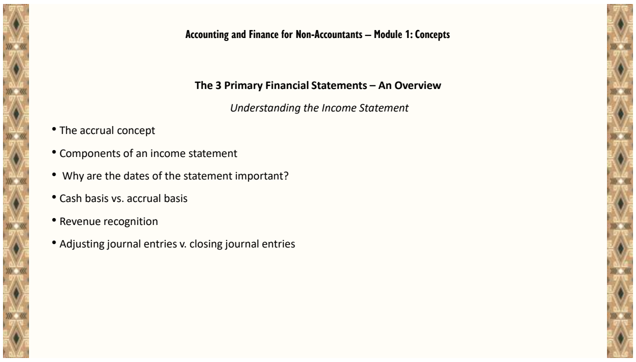

Accounting and Finance for Non-Accountants – Module 1: Concepts

The 3 Primary Financial Statements – An Overview

Understanding the Income Statement

- The accrual concept
- Components of an income statement
- Why are the dates of the statement important?
- Cash basis vs. accrual basis
- Revenue recognition
- Adjusting journal entries v. closing journal entries

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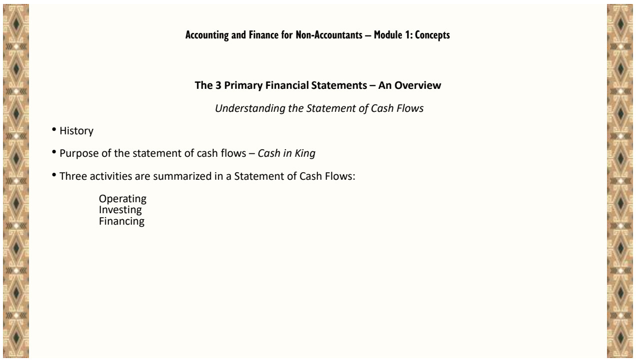

Accounting and Finance for Non-Accountants – Module 1: Concepts

The 3 Primary Financial Statements – An Overview

Understanding the Statement of Cash Flows

- History
- Purpose of the statement of cash flows – *Cash in King*
- Three activities are summarized in a Statement of Cash Flows:

Operating
Investing
Financing

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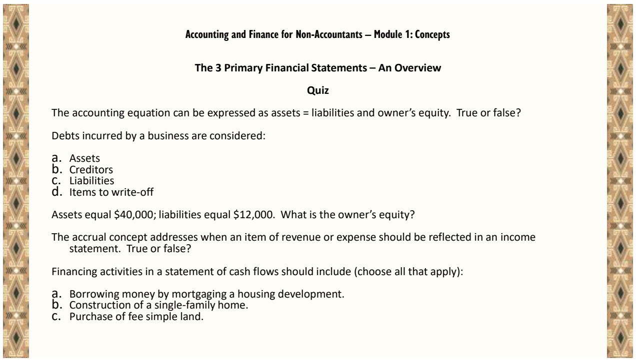

Accounting and Finance for Non-Accountants – Module 1: Concepts

The 3 Primary Financial Statements – An Overview

Quiz

The accounting equation can be expressed as assets = liabilities and owner's equity. True or false?

Debts incurred by a business are considered:

a. Assets
b. Creditors
c. Liabilities
d. Items to write-off

Assets equal $40,000; liabilities equal $12,000. What is the owner's equity?

The accrual concept addresses when an item of revenue or expense should be reflected in an income statement. True or false?

Financing activities in a statement of cash flows should include (choose all that apply):

a. Borrowing money by mortgaging a housing development.
b. Construction of a single-family home.
c. Purchase of fee simple land.

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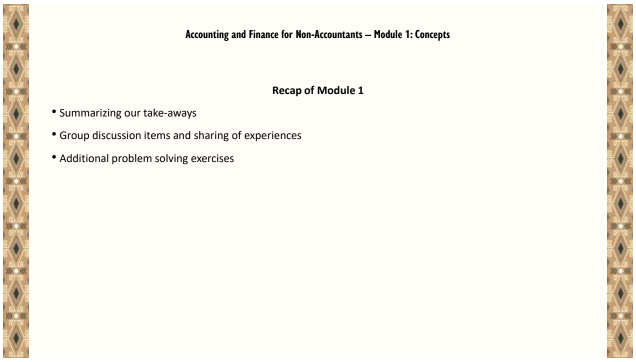

Accounting and Finance for Non-Accountants – Module 1: Concepts

Recap of Module 1

- Summarizing our take-aways
- Group discussion items and sharing of experiences
- Additional problem solving exercises

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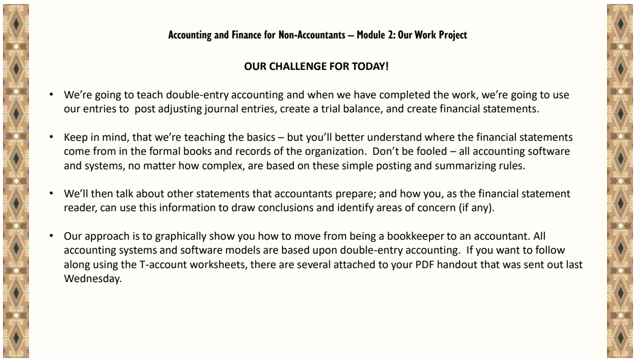
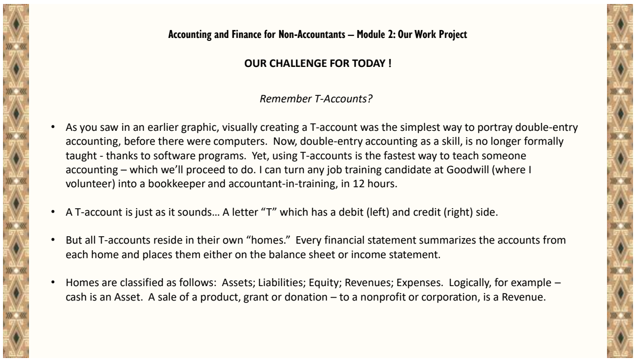


Accounting and Finance for Non-Accountants – Module 2: Our Work Project

OUR CHALLENGE FOR TODAY!

- We're going to teach double-entry accounting and when we have completed the work, we're going to use our entries to post adjusting journal entries, create a trial balance, and create financial statements.
- Keep in mind, that we're teaching the basics – but you'll better understand where the financial statements come from in the formal books and records of the organization. Don't be fooled – all accounting software and systems, no matter how complex, are based on these simple posting and summarizing rules.
- We'll then talk about other statements that accountants prepare; and how you, as the financial statement reader, can use this information to draw conclusions and identify areas of concern (if any).
- Our approach is to graphically show you how to move from being a bookkeeper to an accountant. All accounting systems and software models are based upon double-entry accounting. If you want to follow along using the T-account worksheets, there are several attached to your PDF handout that was sent out last Wednesday.



Accounting and Finance for Non-Accountants – Module 2: Our Work Project

OUR CHALLENGE FOR TODAY !

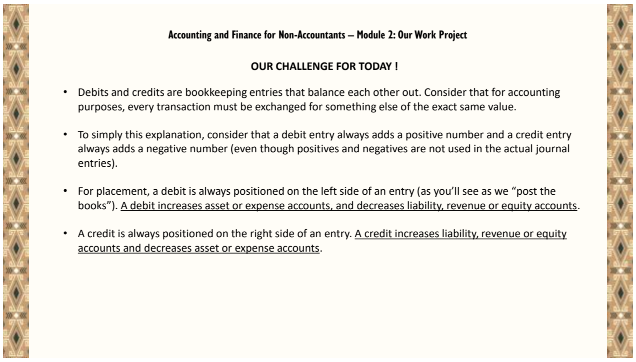
Remember T-Accounts?

- As you saw in an earlier graphic, visually creating a T-account was the simplest way to portray double-entry accounting, before there were computers. Now, double-entry accounting as a skill, is no longer formally taught - thanks to software programs. Yet, using T-accounts is the fastest way to teach someone accounting – which we'll proceed to do. I can turn any job training candidate at Goodwill (where I volunteer) into a bookkeeper and accountant-in-training, in 12 hours.
- A T-account is just as it sounds… A letter "T" which has a debit (left) and credit (right) side.
- But all T-accounts reside in their own "homes." Every financial statement summarizes the accounts from each home and places them either on the balance sheet or income statement.
- Homes are classified as follows: Assets; Liabilities; Equity; Revenues; Expenses. Logically, for example – cash is an Asset. A sale of a product, grant or donation – to a nonprofit or corporation, is a Revenue.

Accounting and Finance for Non-Accountants – Module 2: Our Work Project

OUR CHALLENGE FOR TODAY !

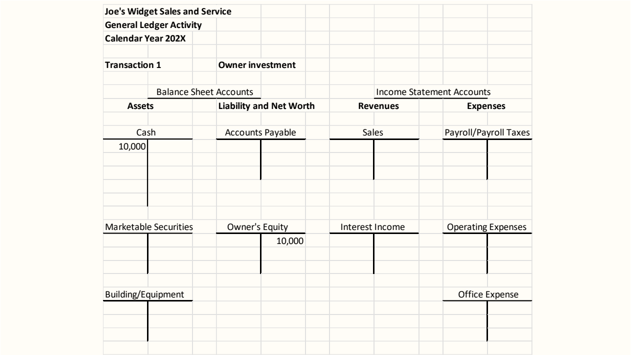
- While the accrual basis is the appropriate concept that complies with GAAP, most organizations do post accrual adjustments or adjusting journal entries during the year. Typically, the cash basis is the only methodology followed during the current year; accrual adjustments are made only at the end of a reporting period (such as annually, or quarterly – for example, publicly traded companies.
- We're going to create a company, post all the transactions for the year, post adjusting journal entries, prepare a trial balance, and create financial statements.
- This new company is called Joe's Widget Sales and Service.
- The following slides will post the ten transactions we had this year (aka, twenty entries – 10 DRs & 10 CRs).



Accounting and Finance for Non-Accountants – Module 2: Our Work Project

OUR CHALLENGE FOR TODAY !

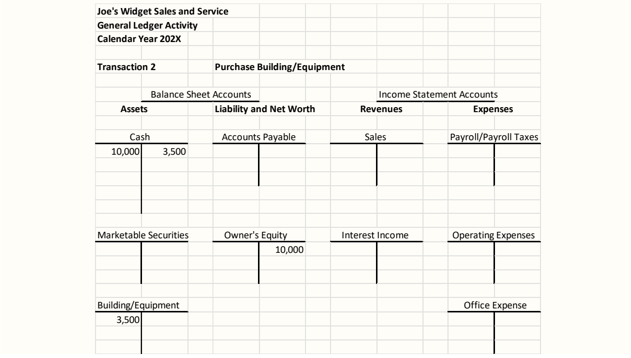
- Debits and credits are bookkeeping entries that balance each other out. Consider that for accounting purposes, every transaction must be exchanged for something else of the exact same value.
- To simply this explanation, consider that a debit entry always adds a positive number and a credit entry always adds a negative number (even though positives and negatives are not used in the actual journal entries).
- For placement, a debit is always positioned on the left side of an entry (as you'll see as we "post the books"). A debit increases asset or expense accounts, and decreases liability, revenue or equity accounts.
- A credit is always positioned on the right side of an entry. A credit increases liability, revenue or equity accounts and decreases asset or expense accounts.



Joe's Widget Sales and Service
General Ledger Activity
Calendar Year 202X

Transaction 1 **Owner investment**

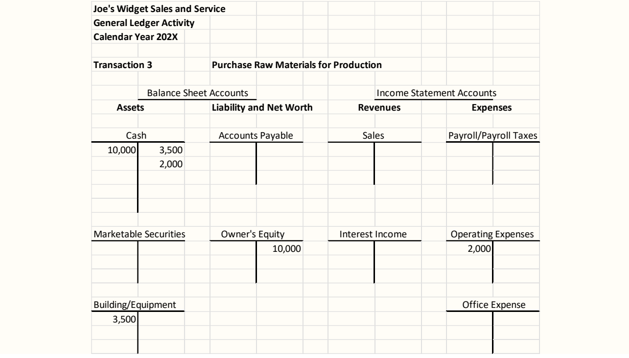
Balance Sheet Accounts				Income Statement Accounts			
Assets		**Liability and Net Worth**		**Revenues**		**Expenses**	
Cash		Accounts Payable		Sales		Payroll/Payroll Taxes	
10,000							
Marketable Securities		Owner's Equity		Interest Income		Operating Expenses	
			10,000				
Building/Equipment						Office Expense	



Joe's Widget Sales and Service
General Ledger Activity
Calendar Year 202X

Transaction 2 **Purchase Building/Equipment**

Balance Sheet Accounts				Income Statement Accounts			
Assets		**Liability and Net Worth**		**Revenues**		**Expenses**	
Cash		Accounts Payable		Sales		Payroll/Payroll Taxes	
10,000	3,500						
Marketable Securities		Owner's Equity		Interest Income		Operating Expenses	
			10,000				
Building/Equipment						Office Expense	
3,500							



Joe's Widget Sales and Service
General Ledger Activity
Calendar Year 202X

Transaction 3 **Purchase Raw Materials for Production**

Balance Sheet Accounts				Income Statement Accounts			
Assets		**Liability and Net Worth**		**Revenues**		**Expenses**	
Cash		Accounts Payable		Sales		Payroll/Payroll Taxes	
10,000	3,500						
	2,000						
Marketable Securities		Owner's Equity		Interest Income		Operating Expenses	
			10,000			2,000	
Building/Equipment						Office Expense	
3,500							

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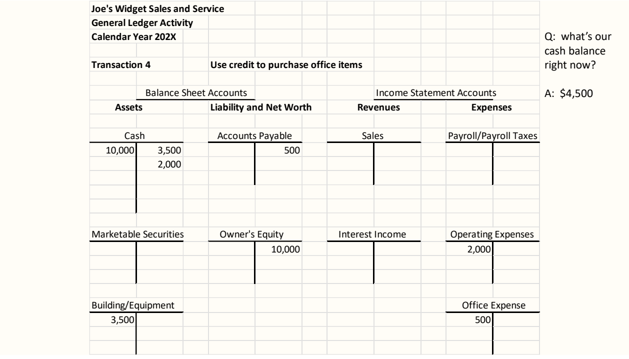


Joe's Widget Sales and Service
General Ledger Activity
Calendar Year 202X

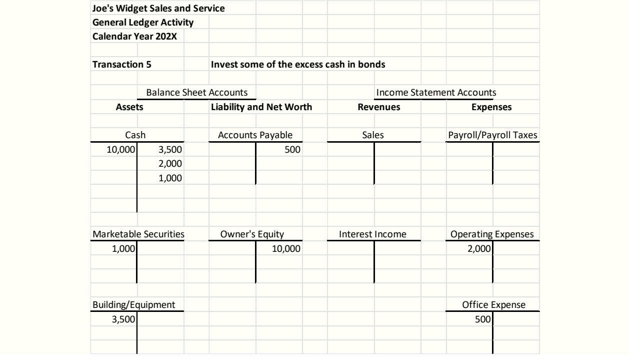
Transaction 4 **Use credit to purchase office items**

Balance Sheet Accounts				Income Statement Accounts			
Assets		**Liability and Net Worth**		**Revenues**		**Expenses**	
Cash		Accounts Payable		Sales		Payroll/Payroll Taxes	
10,000	3,500		500				
	2,000						
Marketable Securities		Owner's Equity		Interest Income		Operating Expenses	
			10,000			2,000	
Building/Equipment						Office Expense	
3,500						500	

Q: what's our cash balance right now?

A: $4,500

32

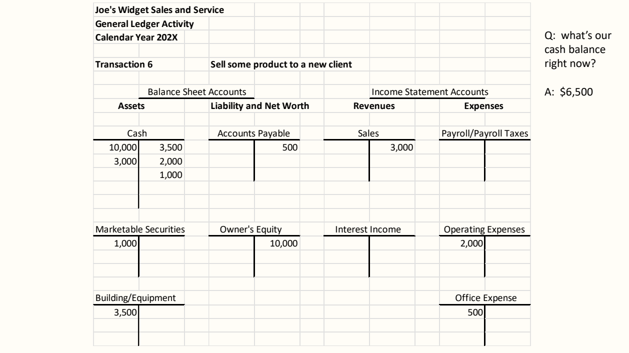


Joe's Widget Sales and Service
General Ledger Activity
Calendar Year 202X

Transaction 5 **Invest some of the excess cash in bonds**

Balance Sheet Accounts				Income Statement Accounts			
Assets		**Liability and Net Worth**		**Revenues**		**Expenses**	
Cash		Accounts Payable		Sales		Payroll/Payroll Taxes	
10,000	3,500		500				
	2,000						
	1,000						
Marketable Securities		Owner's Equity		Interest Income		Operating Expenses	
1,000			10,000			2,000	
Building/Equipment						Office Expense	
3,500						500	

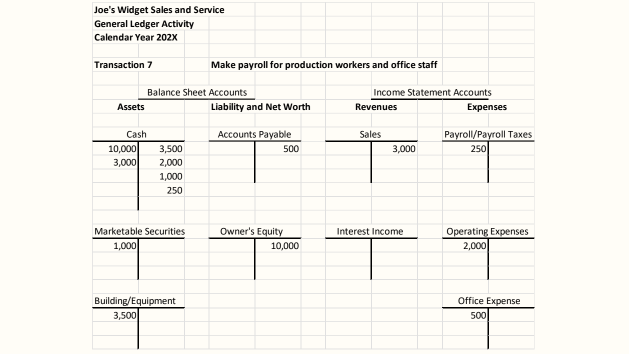
33



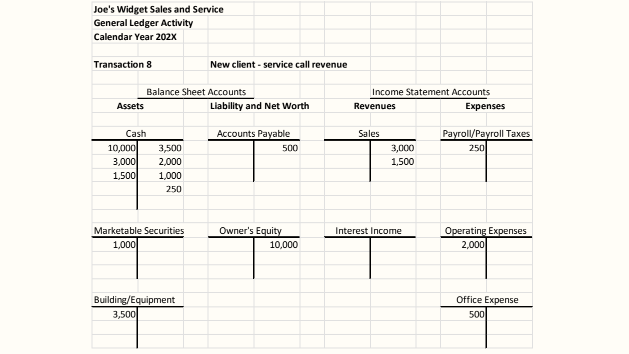
Joe's Widget Sales and Service										
General Ledger Activity										
Calendar Year 202X										
Transaction 6			**Sell some product to a new client**							
	Balance Sheet Accounts						Income Statement Accounts			
Assets			**Liability and Net Worth**			**Revenues**			**Expenses**	
Cash			Accounts Payable			Sales			Payroll/Payroll Taxes	
10,000	3,500			500			3,000			
3,000	2,000									
	1,000									
Marketable Securities			Owner's Equity			Interest Income			Operating Expenses	
1,000				10,000					2,000	
Building/Equipment									Office Expense	
3,500									500	

Q: what's our cash balance right now?

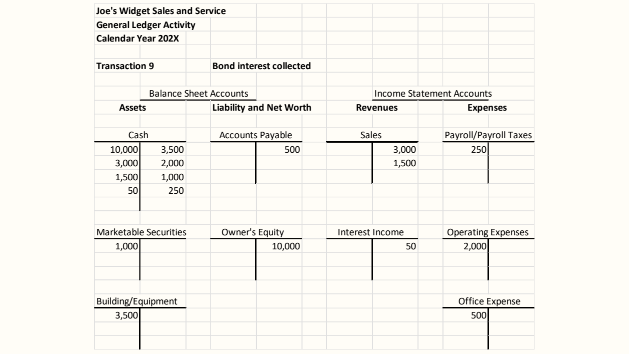
A: $6,500



Joe's Widget Sales and Service										
General Ledger Activity										
Calendar Year 202X										
Transaction 7			**Make payroll for production workers and office staff**							
	Balance Sheet Accounts						Income Statement Accounts			
Assets			**Liability and Net Worth**			**Revenues**			**Expenses**	
Cash			Accounts Payable			Sales			Payroll/Payroll Taxes	
10,000	3,500			500			3,000		250	
3,000	2,000									
	1,000									
	250									
Marketable Securities			Owner's Equity			Interest Income			Operating Expenses	
1,000				10,000					2,000	
Building/Equipment									Office Expense	
3,500									500	



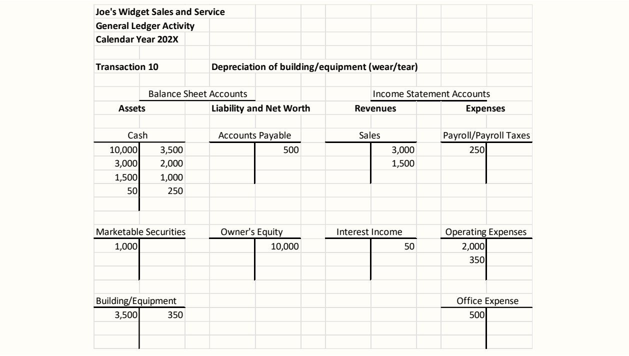
Joe's Widget Sales and Service										
General Ledger Activity										
Calendar Year 202X										
Transaction 8			**New client - service call revenue**							
	Balance Sheet Accounts						Income Statement Accounts			
Assets			**Liability and Net Worth**			**Revenues**			**Expenses**	
Cash			Accounts Payable			Sales			Payroll/Payroll Taxes	
10,000	3,500			500			3,000		250	
3,000	2,000						1,500			
1,500	1,000									
	250									
Marketable Securities			Owner's Equity			Interest Income			Operating Expenses	
1,000				10,000					2,000	
Building/Equipment									Office Expense	
3,500									500	



Joe's Widget Sales and Service
General Ledger Activity
Calendar Year 202X

Transaction 9 **Bond interest collected**

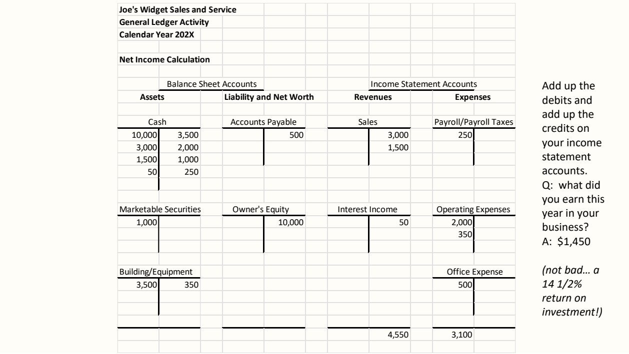
Balance Sheet Accounts				Income Statement Accounts			
Assets		**Liability and Net Worth**		**Revenues**		**Expenses**	
Cash		Accounts Payable		Sales		Payroll/Payroll Taxes	
10,000	3,500		500		3,000	250	
3,000	2,000				1,500		
1,500	1,000						
50	250						
Marketable Securities		Owner's Equity		Interest Income		Operating Expenses	
1,000			10,000		50	2,000	
Building/Equipment						Office Expense	
3,500						500	



Joe's Widget Sales and Service
General Ledger Activity
Calendar Year 202X

Transaction 10 **Depreciation of building/equipment (wear/tear)**

Balance Sheet Accounts				Income Statement Accounts			
Assets		**Liability and Net Worth**		**Revenues**		**Expenses**	
Cash		Accounts Payable		Sales		Payroll/Payroll Taxes	
10,000	3,500		500		3,000	250	
3,000	2,000				1,500		
1,500	1,000						
50	250						
Marketable Securities		Owner's Equity		Interest Income		Operating Expenses	
1,000			10,000		50	2,000	
						350	
Building/Equipment						Office Expense	
3,500	350					500	



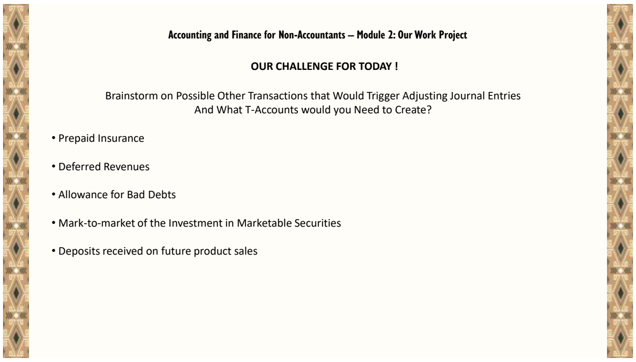
Joe's Widget Sales and Service
General Ledger Activity
Calendar Year 202X

Net Income Calculation

Balance Sheet Accounts				Income Statement Accounts			
Assets		**Liability and Net Worth**		**Revenues**		**Expenses**	
Cash		Accounts Payable		Sales		Payroll/Payroll Taxes	
10,000	3,500		500		3,000	250	
3,000	2,000				1,500		
1,500	1,000						
50	250						
Marketable Securities		Owner's Equity		Interest Income		Operating Expenses	
1,000			10,000		50	2,000	
						350	
Building/Equipment						Office Expense	
3,500	350					500	
					4,550	3,100	

Add up the debits and add up the credits on your income statement accounts.
Q: what did you earn this year in your business?
A: $1,450

(not bad... a 14 1/2% return on investment!)



Accounting and Finance for Non-Accountants – Module 2: Our Work Project

OUR CHALLENGE FOR TODAY !

Brainstorm on Possible Other Transactions that Would Trigger Adjusting Journal Entries
And What T-Accounts would you Need to Create?

- Prepaid Insurance
- Deferred Revenues
- Allowance for Bad Debts
- Mark-to-market of the Investment in Marketable Securities
- Deposits received on future product sales

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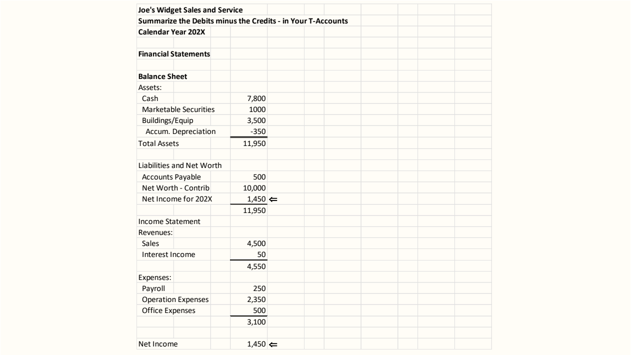

Joe's Widget Sales and Service
Summarize the Debits minus the Credits - in Your T-Accounts
Calendar Year 202X

Financial Statements

Balance Sheet	
Assets:	
Cash	7,800
Marketable Securities	1000
Buildings/Equip	3,500
Accum. Depreciation	-350
Total Assets	11,950
Liabilities and Net Worth	
Accounts Payable	500
Net Worth - Contrib	10,000
Net Income for 202X	1,450 ⇐
	11,950
Income Statement	
Revenues:	
Sales	4,500
Interest Income	50
	4,550
Expenses:	
Payroll	250
Operation Expenses	2,350
Office Expenses	500
	3,100
Net Income	1,450 ⇐

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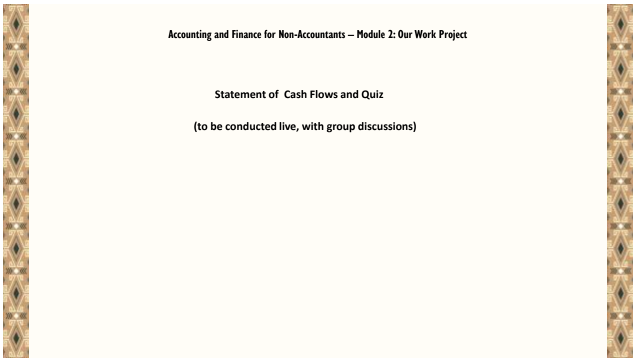

Accounting and Finance for Non-Accountants – Module 2: Our Work Project

Statement of Cash Flows and Quiz

(to be conducted live, with group discussions)

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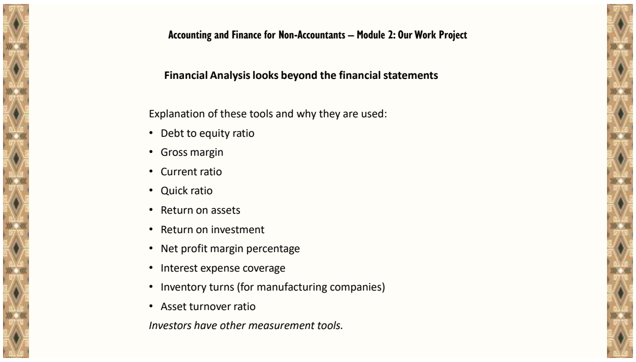

Accounting and Finance for Non-Accountants – Module 2: Our Work Project

Financial Analysis looks beyond the financial statements

Explanation of these tools and why they are used:

- Debt to equity ratio
- Gross margin
- Current ratio
- Quick ratio
- Return on assets
- Return on investment
- Net profit margin percentage
- Interest expense coverage
- Inventory turns (for manufacturing companies)
- Asset turnover ratio

Investors have other measurement tools.

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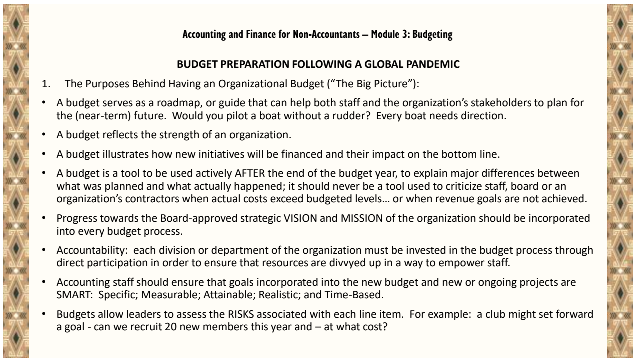

Accounting and Finance for Non-Accountants – Module 3: Budgeting

BUDGET PREPARATION FOLLOWING A GLOBAL PANDEMIC

1. The Purposes Behind Having an Organizational Budget ("The Big Picture"):

- A budget serves as a roadmap, or guide that can help both staff and the organization's stakeholders to plan for the (near-term) future. Would you pilot a boat without a rudder? Every boat needs direction.
- A budget reflects the strength of an organization.
- A budget illustrates how new initiatives will be financed and their impact on the bottom line.
- A budget is a tool to be used actively AFTER the end of the budget year, to explain major differences between what was planned and what actually happened; it should never be a tool used to criticize staff, board or an organization's contractors when actual costs exceed budgeted levels… or when revenue goals are not achieved.
- Progress towards the Board-approved strategic VISION and MISSION of the organization should be incorporated into every budget process.
- Accountability: each division or department of the organization must be invested in the budget process through direct participation in order to ensure that resources are divvyed up in a way to empower staff.
- Accounting staff should ensure that goals incorporated into the new budget and new or ongoing projects are SMART: Specific; Measurable; Attainable; Realistic; and Time-Based.
- Budgets allow leaders to assess the RISKS associated with each line item. For example: a club might set forward a goal - can we recruit 20 new members this year and – at what cost?

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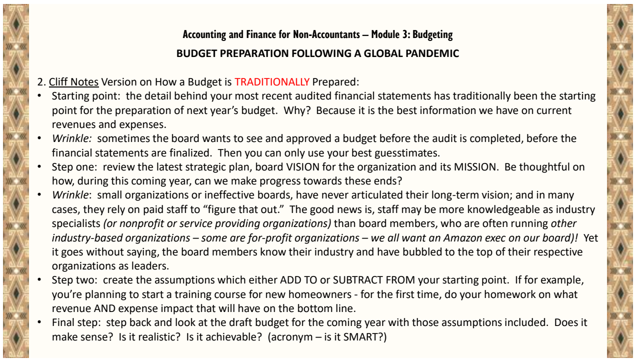

Accounting and Finance for Non-Accountants – Module 3: Budgeting

BUDGET PREPARATION FOLLOWING A GLOBAL PANDEMIC

2. Cliff Notes Version on How a Budget is TRADITIONALLY Prepared:

- Starting point: the detail behind your most recent audited financial statements has traditionally been the starting point for the preparation of next year's budget. Why? Because it is the best information we have on current revenues and expenses.
- *Wrinkle:* sometimes the board wants to see and approved a budget before the audit is completed, before the financial statements are finalized. Then you can only use your best guesstimates.
- Step one: review the latest strategic plan, board VISION for the organization and its MISSION. Be thoughtful on how, during this coming year, can we make progress towards these ends?
- *Wrinkle*: small organizations or ineffective boards, have never articulated their long-term vision; and in many cases, they rely on paid staff to "figure that out." The good news is, staff may be more knowledgeable as industry specialists *(or nonprofit or service providing organizations)* than board members, who are often running *other industry-based organizations – some are for-profit organizations – we all want an Amazon exec on our board)!* Yet it goes without saying, the board members know their industry and have bubbled to the top of their respective organizations as leaders.
- Step two: create the assumptions which either ADD TO or SUBTRACT FROM your starting point. If for example, you're planning to start a training course for new homeowners - for the first time, do your homework on what revenue AND expense impact that will have on the bottom line.
- Final step: step back and look at the draft budget for the coming year with those assumptions included. Does it make sense? Is it realistic? Is it achievable? (acronym – is it SMART?)

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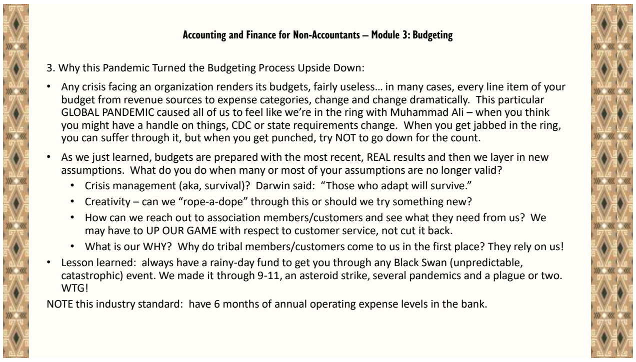

Accounting and Finance for Non-Accountants – Module 3: Budgeting

3. Why this Pandemic Turned the Budgeting Process Upside Down:

- Any crisis facing an organization renders its budgets, fairly useless… in many cases, every line item of your budget from revenue sources to expense categories, change and change dramatically. This particular GLOBAL PANDEMIC caused all of us to feel like we're in the ring with Muhammad Ali – when you think you might have a handle on things, CDC or state requirements change. When you get jabbed in the ring, you can suffer through it, but when you get punched, try NOT to go down for the count.
- As we just learned, budgets are prepared with the most recent, REAL results and then we layer in new assumptions. What do you do when many or most of your assumptions are no longer valid?
  - Crisis management (aka, survival)? Darwin said: "Those who adapt will survive."
  - Creativity – can we "rope-a-dope" through this or should we try something new?
  - How can we reach out to association members/customers and see what they need from us? We may have to UP OUR GAME with respect to customer service, not cut it back.
  - What is our WHY? Why do tribal members/customers come to us in the first place? They rely on us!
- Lesson learned: always have a rainy-day fund to get you through any Black Swan (unpredictable, catastrophic) event. We made it through 9-11, an asteroid strike, several pandemics and a plague or two. WTG!

NOTE this industry standard: have 6 months of annual operating expense levels in the bank.

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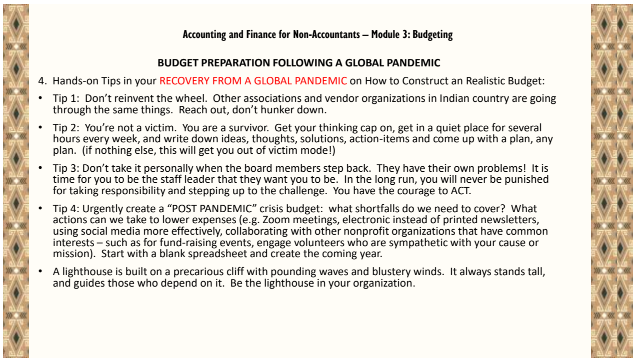

Accounting and Finance for Non-Accountants – Module 3: Budgeting

BUDGET PREPARATION FOLLOWING A GLOBAL PANDEMIC

4. Hands-on Tips in your RECOVERY FROM A GLOBAL PANDEMIC on How to Construct an Realistic Budget:

- Tip 1: Don't reinvent the wheel. Other associations and vendor organizations in Indian country are going through the same things. Reach out, don't hunker down.
- Tip 2: You're not a victim. You are a survivor. Get your thinking cap on, get in a quiet place for several hours every week, and write down ideas, thoughts, solutions, action-items and come up with a plan, any plan. (if nothing else, this will get you out of victim mode!)
- Tip 3: Don't take it personally when the board members step back. They have their own problems! It is time for you to be the staff leader that they want you to be. In the long run, you will never be punished for taking responsibility and stepping up to the challenge. You have the courage to ACT.
- Tip 4: Urgently create a "POST PANDEMIC" crisis budget: what shortfalls do we need to cover? What actions can we take to lower expenses (e.g. Zoom meetings, electronic instead of printed newsletters, using social media more effectively, collaborating with other nonprofit organizations that have common interests – such as for fund-raising events, engage volunteers who are sympathetic with your cause or mission). Start with a blank spreadsheet and create the coming year.
- A lighthouse is built on a precarious cliff with pounding waves and blustery winds. It always stands tall, and guides those who depend on it. Be the lighthouse in your organization.

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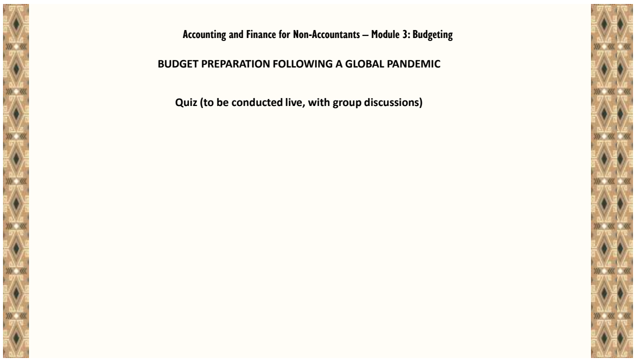

Accounting and Finance for Non-Accountants – Module 3: Budgeting

BUDGET PREPARATION FOLLOWING A GLOBAL PANDEMIC

Quiz (to be conducted live, with group discussions)

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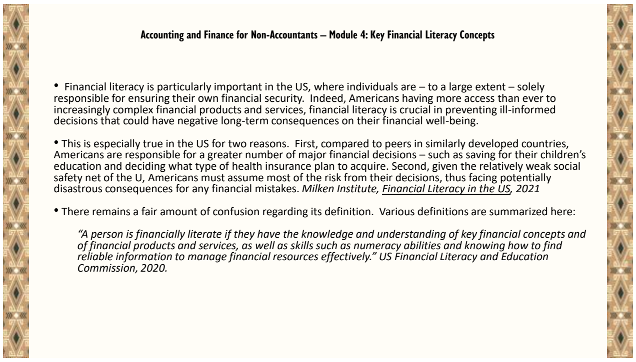

Accounting and Finance for Non-Accountants – Module 4: Key Financial Literacy Concepts

- Financial literacy is particularly important in the US, where individuals are – to a large extent – solely responsible for ensuring their own financial security. Indeed, Americans having more access than ever to increasingly complex financial products and services, financial literacy is crucial in preventing ill-informed decisions that could have negative long-term consequences on their financial well-being.
- This is especially true in the US for two reasons. First, compared to peers in similarly developed countries, Americans are responsible for a greater number of major financial decisions – such as saving for their children's education and deciding what type of health insurance plan to acquire. Second, given the relatively weak social safety net of the U, Americans must assume most of the risk from their decisions, thus facing potentially disastrous consequences for any financial mistakes. *Milken Institute, Financial Literacy in the US, 2021*
- There remains a fair amount of confusion regarding its definition. Various definitions are summarized here:

> *"A person is financially literate if they have the knowledge and understanding of key financial concepts and of financial products and services, as well as skills such as numeracy abilities and knowing how to find reliable information to manage financial resources effectively." US Financial Literacy and Education Commission, 2020.*

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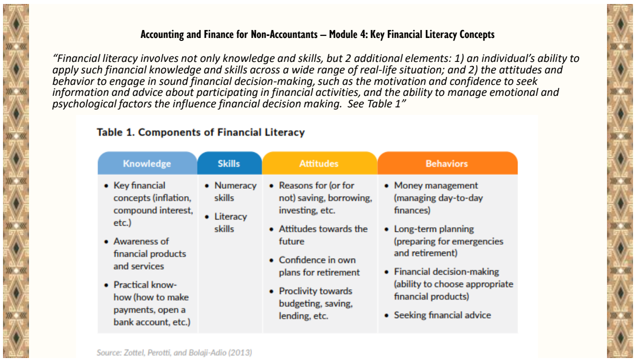

Accounting and Finance for Non-Accountants – Module 4: Key Financial Literacy Concepts

"Financial literacy involves not only knowledge and skills, but 2 additional elements: 1) an individual's ability to apply such financial knowledge and skills across a wide range of real-life situation; and 2) the attitudes and behavior to engage in sound financial decision-making, such as the motivation and confidence to seek information and advice about participating in financial activities, and the ability to manage emotional and psychological factors the influence financial decision making. See Table 1"

Table 1. Components of Financial Literacy

Knowledge	Skills	Attitudes	Behaviors
• Key financial concepts (inflation, compound interest, etc.) • Awareness of financial products and services • Practical know-how (how to make payments, open a bank account, etc.)	• Numeracy skills • Literacy skills	• Reasons for (or for not) saving, borrowing, investing, etc. • Attitudes towards the future • Confidence in own plans for retirement • Proclivity towards budgeting, saving, lending, etc.	• Money management (managing day-to-day finances) • Long-term planning (preparing for emergencies and retirement) • Financial decision-making (ability to choose appropriate financial products) • Seeking financial advice

Source: Zottel, Perotti, and Bolaji-Adio (2013)

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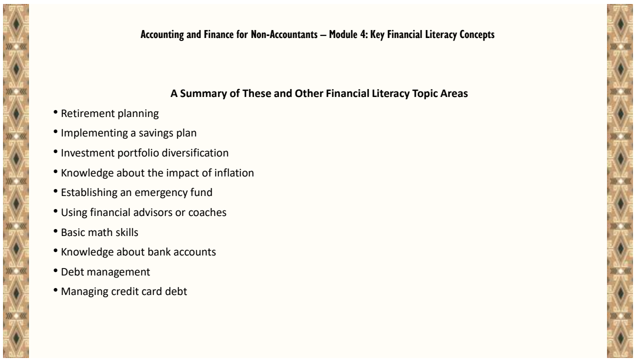

Accounting and Finance for Non-Accountants – Module 4: Key Financial Literacy Concepts

A Summary of These and Other Financial Literacy Topic Areas

- Retirement planning
- Implementing a savings plan
- Investment portfolio diversification
- Knowledge about the impact of inflation
- Establishing an emergency fund
- Using financial advisors or coaches
- Basic math skills
- Knowledge about bank accounts
- Debt management
- Managing credit card debt

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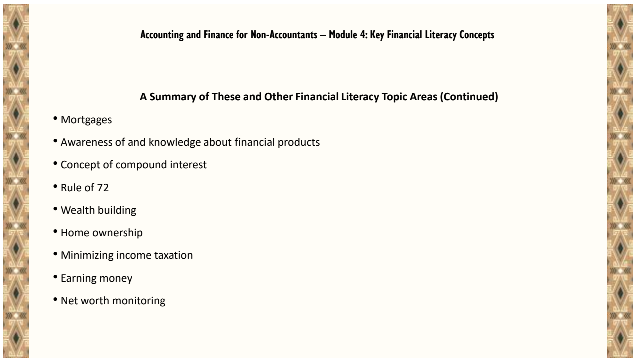
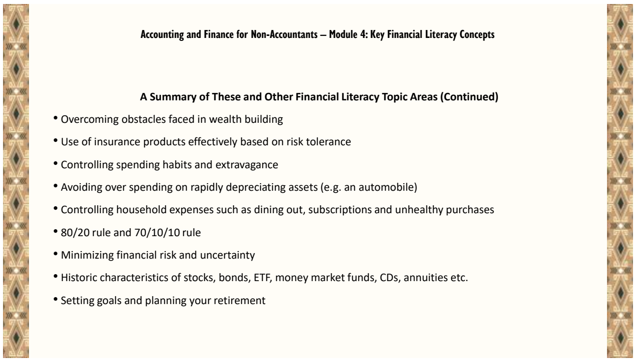


Accounting and Finance for Non-Accountants – Module 4: Key Financial Literacy Concepts

A Summary of These and Other Financial Literacy Topic Areas (Continued)

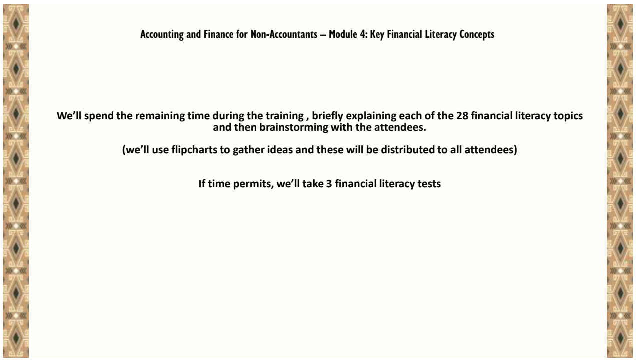
- Mortgages
- Awareness of and knowledge about financial products
- Concept of compound interest
- Rule of 72
- Wealth building
- Home ownership
- Minimizing income taxation
- Earning money
- Net worth monitoring



Accounting and Finance for Non-Accountants – Module 4: Key Financial Literacy Concepts

A Summary of These and Other Financial Literacy Topic Areas (Continued)

- Overcoming obstacles faced in wealth building
- Use of insurance products effectively based on risk tolerance
- Controlling spending habits and extravagance
- Avoiding over spending on rapidly depreciating assets (e.g. an automobile)
- Controlling household expenses such as dining out, subscriptions and unhealthy purchases
- 80/20 rule and 70/10/10 rule
- Minimizing financial risk and uncertainty
- Historic characteristics of stocks, bonds, ETF, money market funds, CDs, annuities etc.
- Setting goals and planning your retirement



Accounting and Finance for Non-Accountants – Module 4: Key Financial Literacy Concepts

We'll spend the remaining time during the training , briefly explaining each of the 28 financial literacy topics and then brainstorming with the attendees.

(we'll use flipcharts to gather ideas and these will be distributed to all attendees)

If time permits, we'll take 3 financial literacy tests

Appendix A. Standard & Poor's Global Financial Literacy Survey

Survey Questions (correct answers are in **red**)

Risk Diversification

Q1. Suppose you have some money. Is it safer to put your money into one business or investment or to put your money into multiple businesses or investments?

Options: one business or investment; **multiple businesses or investments**; don't know; refused to answer

Inflation

Q2. Suppose over the next 10 years the prices of the things you buy double. If your income also doubles, will you be able to buy less than you can buy today, the same as you can buy today, or more than you can buy today?

Options: less; **the same**; more; don't know; refused to answer.

Numeracy (Interest)

Q3. Suppose you need to borrow 100 US dollars. Which is the lower amount to pay back: 105 US dollars or 100 US dollars plus three percent?

Options: 105 US dollars; **100 US dollars plus three percent**; don't know; refused to answer.

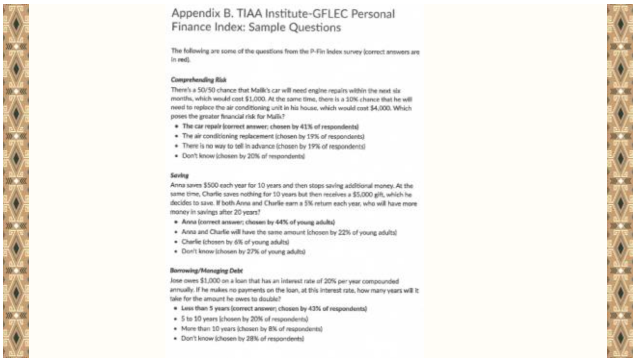
Compound Interest

Q4. Suppose you put money in the bank for two years and the bank agrees to add 15 percent per year to your account. Will the bank add more money to your account the second year than it did the first year, or will it add the same amount of money both years?

Options: **more**; the same; don't know; refused to answer.

Q5. Suppose you had 100 US dollars in a savings account, and the bank adds 10 percent per year to the account. How much money would you have in the account after five years if you did not remove any money from the account?

Options: **more than 150 dollars**; exactly 150 dollars; less than 150 dollars; don't know; refused to answer.



Appendix B. TIAA Institute-GFLEC Personal Finance Index: Sample Questions

The following are some of the questions from the P-Fin Index survey (correct answers are in **red**).

Comprehending Risk

There's a 50/50 chance that Malik's car will need engine repairs within the next six months, which would cost $1,000. At the same time, there is a 10% chance that he will need to replace the air conditioning unit in his house, which would cost $4,000. Which poses the greater financial risk for Malik?

- **The car repair (correct answer; chosen by 41% of respondents)**
- The air conditioning replacement (chosen by 19% of respondents)
- There is no way to tell in advance (chosen by 19% of respondents)
- Don't know (chosen by 20% of respondents)

Saving

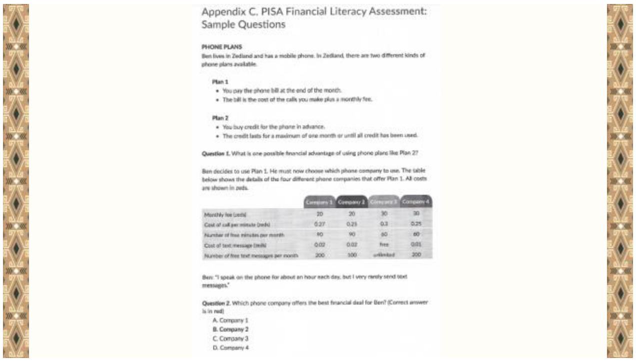
Anna saves $500 each year for 10 years and then stops saving additional money. At the same time, Charlie saves nothing for 10 years but then receives a $5,000 gift, which he decides to save. If both Anna and Charlie earn a 5% return each year, who will have more money in savings after 20 years?

- **Anna (correct answer; chosen by 44% of young adults)**
- Anna and Charlie will have the same amount (chosen by 22% of young adults)
- Charlie (chosen by 6% of young adults)
- Don't know (chosen by 27% of young adults)

Borrowing/Managing Debt

Jose owes $1,000 on a loan that has an interest rate of 20% per year compounded annually. If he makes no payments on the loan, at this interest rate, how many years will it take for the amount he owes to double?

- **Less than 5 years (correct answer; chosen by 43% of respondents)**
- 5 to 10 years (chosen by 20% of respondents)
- More than 10 years (chosen by 8% of respondents)
- Don't know (chosen by 28% of respondents)



Appendix C. PISA Financial Literacy Assessment: Sample Questions

PHONE PLANS

Ben lives in Zedland and has a mobile phone. In Zedland, there are two different kinds of phone plans available.

Plan 1

- You pay the phone bill at the end of the month.
- The bill is the cost of the calls you make plus a monthly fee.

Plan 2

- You buy credit for the phone in advance.
- The credit lasts for a maximum of one month or until all credit has been used.

Question 1. What is one possible financial advantage of using phone plans like Plan 2?

Ben decides to use Plan 1. He must now choose which phone company to use. The table below shows the details of the four different phone companies that offer Plan 1. All costs are shown in zeds.

	Company 1	Company 2	Company 3	Company 4
Monthly fee (zeds)	20	20	30	30
Cost of call per minute (zeds)	0.27	0.25	0.3	0.25
Number of free minutes per month	80	90	60	60
Cost of text message (zeds)	0.02	0.02	free	0.01
Number of free text messages per month	200	100	unlimited	200

Ben: "I speak on the phone for about an hour each day, but I very rarely send text messages."

Question 2. Which phone company offers the best financial deal for Ben? (Correct answer is in **red**)

A. Company 1
B. Company 2
C. Company 3
D. Company 4

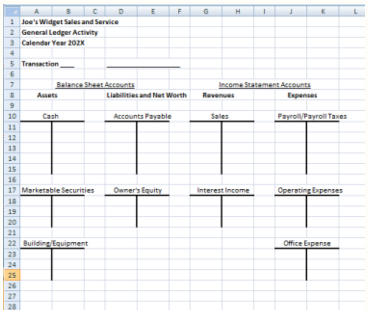
Accounting and Finance for Non-Accountants

Wrap up – final comments, share what insights you gained over the past two days, and all of us will address questions and answers brought forward!

Post-Training Evaluation

Please watch your email for a training evaluation from NAIHC.

Accounting and Finance for Non-Accountants – Sample Worksheet



Joe's Widget Sales and Service
General Ledger Activity
Calendar Year 202X

Transaction ____ ____________________

Balance Sheet Accounts
Assets **Liabilities and Net Worth**

Income Statement Accounts
Revenues **Expenses**

Cash
Accounts Payable
Sales
Payroll/Payroll Taxes
Marketable Securities
Owner's Equity
Interest Income
Operating Expenses
Building/Equipment
Office Expense