

# Annotated Balance Sheet, FY 2013-2014

Alex Green, Interim Director of Financial Services

## Common Questions

- What is a Balance Sheet?
  - Generally speaking, a Balance Sheet is a financial representation of the things that a business has (Assets) and where the money came from to pay for those things, whether it is borrowed from people outside of the organization (Liabilities) or contributed by owners (Equity).
  
- What is an Annotated Balance Sheet?
  - An Annotated Balance Sheet is a tool that aims to explain important items in the Balance Sheet with words. The goal for members who are unfamiliar or uncomfortable with Balance Sheets is to still receive the important information reflected therein. Additionally, it is used as a guide to focus Board attention on items deemed particularly important or noteworthy by the Finance Office.
  
- Terms
  - FY#### - FY stands for Fiscal Year, and can be thought of as a budget period. The ICC's Fiscal Year begins on May 1 and ends on April 30 of the following calendar year. The numbers after "FY" represent the years of the Fiscal Year, e.g., FY1314 means the Fiscal Year beginning May 1, 2013 and ending April 30, 2014.
  
- What the numbers to the left of each line item? And what *is* a line item anyway?
  - Accounting is a method of organizing money with labels, and line items are the different "labels" with which we do this. For example, the ICC has various bank accounts, such as the Comerica Operating Account (12050). The numbers to the left of the line items are unique identifiers that help accountants identify and differentiate each line item.

## Things to Know About Balance Sheets

- Accounting uses a double entry system to track financial activity. The double entry organizes each transaction in two ways: it tracks what was done with the money and where the money came from. These make up the two sides of a balance sheet: Assets (what was done with the money/the things the business has) and Liabilities & Equity (where the money came from).
  
- The total value of an organization's Assets (the things that a business has) is always equal to the sum of its Liabilities and Equity. This is because Liabilities (money from outsiders) and Equity (money from owners) tracks where money has come from and Assets tracks the things that were purchased with that money.
  - Income and Expenses (which are on the Profit and Loss Statement) are subsections of Equity that counterbalance each other. When the organization makes profit/loss, it increases/decreases the organization's Equity because the money was "made" or "lost" by the owners.

- Spending can either create an Expense or an Asset. If the thing purchased is likely to be “used” within one year (such as office supplies, staff salary, or even taxes) then it is expensed, goes through the Profit and Loss Statement, and affects the organization’s Net Income (Income minus Expenses) for the year. When the thing purchased will be used over the course of many years (such as the purchase of a house, a major maintenance improvement, or the purchase of major equipment like a refrigerator), then the spending is “capitalized,” meaning that it becomes an Asset and appears on the Balance Sheet as a thing of value that the organization has, and is then “depreciated” or expensed little by little every year.
- Common Parts of a Balance Sheet
  - Current Assets – Assets that are cash or could easily be converted to cash within one year. Think money in bank accounts, short-term investments, money the organization is owed that will be paid soon.
  - Fixed Assets – Assets that might be difficult to convert to cash within one year, such as buildings, equipment, vehicles, or land.
  - Current Liabilities – Money owed to others that will be paid off within one year, such as wages owed to staff or short-term loans like the Line of Credit.
  - Long Term Liabilities – Money owed to others that will be paid off over many years, such as the ICC’s commercial loan.
  - Retained Earnings – The sum of all of the profits and losses an organization has made over time that have not been returned to owners in dividends.

### **The Annotated Balance Sheet**

DISCLAIMER – The ICC’s FY1314 Balance Sheet is *unaudited*, meaning it has not yet been checked by CPAs to verify that it is reasonably correct. This Balance Sheet is correct *to the best of our ability thus far*, but there may be some mistakes, items not reported, and things that aren’t the way we’d prefer them to be. The ICC audit is taking place at the end of October, and the board will be presented with audited financial statements as soon as they are available.

- Assets – the things that an organization has/what was done with the money
  - Current Liabilities
    - Cash Accounts – the ICC has money stowed away in different banks and invested in a scholarship fund.
      - 12040 Bank of Ann Arbor – Our Bank of Ann Arbor account. Charges are directly deposited in this account, and Payroll is paid from here.
      - Comerica – The ICC has 3 accounts with Comerica:
        - 12050 Comerica Operating – The Operating account that is used to pay all of the bills!
        - 12060 PayPal – This account is used to manage charges collected and payments made via PayPal
        - 12070 Money Market – The ICC’s savings account with Comerica
      - UMCU – The ICC has a TON of accounts with the UM Credit Union

- 12220 UMCU 09930 – the ICC’s main account with the Credit Union. It holds onto all of the money we portion out to House Accounts
    - 12222 UMCU Additional Help Savings Plus – the ICC’s UMCU savings account
    - 16100 UMCU House Accounts – the House Accounts!
  - 20500 Fidelity Investment – the ICC’s Scholarship Endowment Fund
  - 13000 Accounts Receivable – Tracking of Charges Paid. The ICC has had a STRANGE way of tracking House Accounting. A lot of sophisticated accountants (auditors, for example) have a hard time understanding it because it’s so weird. We’re hoping to simplify things.
- Fixed Assets
  - 17101 Buildings – houses, the office, and the Ed Center.
  - 17201 Building Improvements – Major Maint improvements made over time
  - 17301 Equipment – Boilers, refrigerators, and other major equipment
  - 17401 Vehicles – the ICC truck and any other vehicles the ICC owns
  - 17500 Land – the ground our buildings rest upon
  - \*Special note: What’s this Accumulated Depreciation (“Accum Dep”) stuff?
    - Imagine you’ve bought a house for \$100,000. Congrats! Now, you’ve spent \$100,000, but have you used \$100,000 in value as soon as they money has left your hands? No way! This house is going to last for many years! Accounting’s method of dealing with this problem is to “capitalize” the purchase (put it on the balance sheet as an Asset with a value of the price you paid), and to “depreciate” or expense a portion every year that represents one year’s worth of “wear and tear.”
    - To demonstrate the amount of depreciation taken on our Fixed Assets, we total the depreciation (cost of “wear and tear”) and subtract it from the original price paid, providing the “book value” of that asset. The “book value” is based on the original price paid, whereas the appraised value is called “market value” and is not expressed in financial statements.
- Liabilities – money borrowed from others
  - Current Liabilities
    - 21100 Accounts Payable – Money owed to vendors for goods and services received
    - 2100 - 21720 Various Payroll-related items
    - 22000 Amenities Fund Liability – tracking of the house amenities funds
    - “House Charges Account XXXX” – tracking of money that houses spend
    - 28000 Comerica Line of Credit – the ICC’s Line of Credit, which is like a gigantic, \$500,000 business credit card that we use to finance Major Maintenance

spending in the Summers, paying the balance down in September/October when Fall/Winter payments roll in.

- Long Term Liabilities
  - 28005 Comerica Loan – Our long-term loan with Comerica. ~\$1.8 million @ 4% interest.
- Equity – money contributed by owners (members)
  - Note: This part of the Balance Sheet is a bit fishy, though the confusion the Finance Office has with the accounting here is very low-impact. Ultimately, the total equity number is what's most important.
  - 29100 Member Shares – the total value of member shares held. *Technically* it should be \$285,500 because we have 571 members who each have \$500 in shares.
  - 29200, 29300, 29400, 29500 – These line items are specific to non-profit accounting. Designated and undesignated refers to assets that the BoD has officially determined should be used in specific ways. Restricted/Temporarily Restricted refers to whether money that was donated was earmarked by donors and how.
  - 29999 Retained Earnings – The sum of all the profits and losses over time.